

# Product Guidelines

## FHA 203K STANDARD

PROGRAM CODES: F30F203KFULL, H30F203KFULL

Version 3.4 – 06/05/18



PURCHASE			
Maximum LTV*	Max Loan Amount	Max Ratios	Mortgage/Rental History
<b>MINIMUM FICO 500</b>			
90.00%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	43%	0 X 30 Past 12 Months
<b>MINIMUM FICO 580</b>			
96.5%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	43%**	Evaluated by AUS***
<b>MINIMUM FICO 620</b>			
96.5%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	Regardless of AUS Maximum 45%/49.99%	Evaluated by AUS***
*The maximum LTV on a Purchase transaction is 96.5% of the LESSER of 110%** of the after improved value or the sum of the adjusted 'as is' appraised value or sales price (whichever is less) plus the total cost of all rehabilitation/repairs. **100% for condos			
**DTI may exceed 31%/43% with compensating factors documented in the file and manual underwrite. Refer to Manual Underwrite section for additional information.			
RATE/TERM REFINANCE			
Maximum LTV	Max Loan Amount	Max Ratios	Mortgage/Rental History
<b>MINIMUM FICO 500</b>			
90.00%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	43%	0 X 30 Past 12 Months
<b>MINIMUM FICO 580</b>			
97.75%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	43%**	Evaluated by AUS***
<b>MINIMUM FICO 620</b>			
97.75%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	Regardless of AUS Maximum 45%/49.99%	Evaluated by AUS***
*The maximum LTV on a refinance transaction is 97.75% of the LESSER of the sum of the existing mortgage debt + total rehabilitation costs + borrower paid closing costs + prepaids + discount on total loan amount - discount on repair costs - FHA MIP refund OR the lessor of the sum of the adjusted 'as is' value + the total rehabilitation/repairs costs or 110% of the after improved value. (100% for condos)			
**DTI may exceed 31%/43% with compensating factors documented in the file and manual underwrite. Refer to Manual Underwrite section for additional information.			

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\*\*\*Refer to mortgage rating section below for additional information.

### REFINANCE OF RECENTLY ACQUIRED FREE & CLEAR PROPERTY\*

Maximum LTV	Max Loan Amount	Max Ratios	Mortgage/Rental History
<b>MINIMUM FICO 500</b>			
85%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	43%	0 X 30 Past 12 Months
<b>MINIMUM FICO 620</b>			
85%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	Regardless of AUS Maximum 45%/49.99%	Evaluated by AUS***

\*Refinance of Free and Clear allowed if within 6 months of purchase. LTV based on lesser of acquisition cost or appraised value to maximum 85% LTV. Borrower must prove occupancy of subject property within 30 days of original closing, document, and source funds used for down payment. Any assets sourced as gift funds will be subtracted from acquisition cost and maximum loan amount. No cash back allowed.

**All underwriting, docs, and funding must be completed in either Santa Ana or Enfield ROC's.**

### Underwriting Guidelines Requirements (All loan amounts must be submitted through FHA's Total Score Card)

#### MAXIMUM LOAN AMOUNTS

	# of Units	Lowest Maximum ("Floor")	Highest Maximum ("Ceiling") Conforming	Highest Maximum ("Ceiling") for High Balance
Continental U.S.	1 Unit	\$294,515	\$453,100	\$679,650
	2 Units	\$377,075	\$580,150	\$870,225
	3 Units	\$455,800	\$701,250	\$1,051,875
	4 Units	\$566,425	\$871,450	\$1,307,175

Maximum Loan Amt (Base) Max Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than the "floor" or greater than the "ceiling" as outlined in the 4000.1.

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#### COLLATERAL

<p>Appraisal Requirements</p>	<p>The 203K Standard program may be used for rehabilitation of a home that is at least a year old. Purchase transaction requires only a Subject-to appraisal unless the property is subject to flipping rules, then second appraisal should be "as-is."</p> <p>Refinance: Property acquired &gt; 12 months "as-is" appraisal only required if existing debt and rehab exceeds the after improved value. Property acquired &lt; 12 then "as-is" appraisal is always required.</p> <p>An after-improved value can be estimated once cost estimates are provided to the appraiser. A description of the proposed repairs and/or improvement(s) must be included in the appraisal report as well as the contractor's cost estimate. The appraiser is to comment whether or not the cost of the work to be performed is in line with the cost of similar work performed in the subject's immediate area. In addition, the appraiser must indicate in the reconciliation section of the appraisal report an after-improved value subject to completion of the proposed repairs and/or improvements. The 3rd box ("subject to the following repairs...") on the appraisal should be checked off by the appraiser.</p>
<p>HUD REO Appraisal and Property Requirements</p>	<p>Appraisals may only be performed by an appraiser listed on the FHA roster. HUD's REO appraisal may be available at no charge. If the original HUD REO appraisal is available, a new appraisal may not be ordered when the sales price exceeds the "as-is" value specified on the M&amp;M's appraisal. If the M&amp;M Contractor's appraisal is more than 120 days old, the lender may order an updated appraisal. The original appraisal must be used if a valid sales contract was executed prior to the expiration date of the appraisal. A second appraisal may only be ordered under the following circumstances: if the current HUD REO appraisal has expired, if there are material deficiencies with the current appraisal as determined by the DE Underwriter, or the original HUD REO appraisal is not made available by the M&amp;M Contractor. Refer to HUD REO appraisal requirements listed below.</p> <p><b>Note:</b> The case # on the HUD M&amp;M appraisal should not be changed if the original HUD REO appraisal was used.</p>
<p>HUD REO Appraisal Requirements - If Original HUD REO Appraisal is not Available</p>	<p>If the "as-is" value is not available or disclosed, the lesser of the contract sales price or initial list price may be used to determine the "as-is" value. The statement of insurability is required and the appraisal must be marked as one of the following "insurable", "insurable with repairs", or "uninsurable". The Property Condition Report (PCR) must be provided to the appraiser prior to inspection. In addition, the Listing History must be included in the file with the original list price. The property listing may be located at: <a href="http://www.HUD.GOV/hudhomes">http://www.HUD.GOV/hudhomes</a>. If the listing history is not present, the M&amp;M Contractor may provide. The sales contract must indicate 203K financing.</p>
<p>HUD REO Lead-Based Paint Appraisal Requirements</p>	<p>HUD will complete a lead-based inspection on properties built before 1978 and provide a cost estimate of the repairs. If lead-based paint was identified, HUD will provide a credit if there is cost to repair. The credit amount is accounted for on Line C4 of the 92700 as a negative adjustment. Any cost to repair must be documented. Contractors who perform the repair must be certified and must follow specific work practices to prevent lead contamination. A copy of the EPA or state-lead training certificate in the name of the party who performed the work must be provided.</p>

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#### COLLATERAL (continued)

Certificate of Occupancy	<p>If a Certificate of Occupancy (C/O) is required from the local building department, CMS will require the C/O be issued prior to closing. If the local building department has issued a Temporary Certificate of Occupancy (T/C/O), CMS will close the loan with the following:</p> <ol style="list-style-type: none"> <li>1. The requirements from the town may not be a safety concern of CMS underwriter;</li> <li>2. All town requirements are addressed in the final contract between the mortgagee and their contractor;</li> <li>3. All items on the contract are completed, including all town requirements for the C/O, and a final C/O is issued before the final payment to the contractor is made; and</li> <li>4. In the underwriter's opinion, all items must be able to be completed within 30 days of closing.</li> </ol>
Condos	<p>Rehabilitation is limited only to the interior of the unit. The maximum mortgage amount cannot exceed 100% of the after-improved value. Must be current FHA-approved condominium complex and meet all HUD requirements (51% occupancy, 15% delinquencies). All condos and attached PUD's require 100% 'walls-in' HO6 coverage. Site condos do not require FHA HRAP/DELRAP approval. Only the lesser of 5 units per condominium association, or 25% of the total number of units, can be undergoing rehabilitation at any time. The subject property building may not contain more than 4 units. However, the condo project may consist of more than 4 units. Refer to the FHA Condominium Project Matrix located in CMS FHA Underwriting Guidelines for more detail.</p>
Eligible Properties	<p>Owner Occupied Only. 1-4 Units. PUD's, FHA approved condominium projects, HUD Owned Properties, mixed-use properties where a minimum of 51 percent of the entire building square footage is for residential use; and the commercial use will not affect the health and safety of the occupants of the residential Property.</p>
Ineligible Properties	<p>Second homes, investment properties, condotels, leaseholds, timeshares, properties encumbered with Property Assessed Clean Energy (PACE) or Home Energy Renovation Opportunity (HERO) obligations, State-approved medical marijuana producing properties, homes that have never been completed, homes that have been completely demolished, properties on stilts, posts, or piers, manufactured homes, mobile homes, co-ops, commercial or industrial zoned properties, , working farms, construction to permanent, land contracts, unique properties such as log homes, berm homes, properties located in the area of Wrightwood, CA, properties located within designated Coastal Barrier Resource System (BRS) areas, properties located on Tribal Lands which include section 248, Hawaiian properties in Lava Zones 1 and 2, Native Hawaiian Housing Loan Guarantee Program (Section 184A), Hawaiian Home Land (Section 247), properties with sink holes, properties with a wastewater stabilization pond/lagoon (aka sewage lagoon), properties with individual water purification systems required to make the water safe for human consumption (does not include systems installed to improve the taste or softness of the water), and/or any other ineligible properties as defined by HUD Handbook 4000.1.</p>

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#### COLLATERAL (continued)

<p>Eligible Repairs/Improvements</p>	<p>The complete foundation system must remain in place. List of eligible repairs/improvements are:</p> <ul style="list-style-type: none"> <li>• Structural alternations and reconstruction (e.g., additions to the structure, finished attics, repair of termite damage and the treatment against termite infestation, etc.)</li> <li>• Changes for improved functions and modernization (e.g., remodeled kitchens and bathrooms).</li> <li>• Elimination of health and safety hazards (including the resolution of defective paint surfaces and/or lead-based paint problems on homes built prior to 1978).</li> <li>• Changes for aesthetic appeal and elimination of obsolescence (e.g., new exterior siding).</li> <li>• Reconditioning or replacement of plumbing (including connecting to public water and/or sewer system), heating air conditioning and electrical systems</li> <li>• Roofing, gutters, and downspouts</li> <li>• Flooring, tiling, and carpeting.</li> <li>• Energy conservation improvements (e.g., new double pane windows, insulation, solar domestic hot water systems, etc.</li> <li>• Major landscape work and site improvements, patios, and terraces that improve the value of the property equal to the dollar amount spent on the improvements or required to preserve the property from erosion.</li> <li>• Improvements for accessibility to the handicapped.</li> <li>• Minor foundation repair is acceptable, including repair or re-leveling of piers in raised foundations; patching or sealing minor settlement cracks; anchoring; tuck-pointing, grading, and other measures necessary to prevent water intrusion. Structural repairs require a licensed engineer's report detailing deficiencies and repair recommendations, which must be provided to the appraiser for review. Major repairs such as replacement of foundation walls or floor joists, breaking or drilling into concrete slabs, and slabjacking are not permitted. Refer to Contingency Reserve section below.</li> <li>• Repairing or removing an in-ground swimming pool.</li> </ul>
<p>Structural Alterations</p>	<p>Room additions or additions to the structure are permitted and must be attached to the original structure. Local zoning ordinances must be followed and market acceptance is required.</p>
<p>Ineligible Improvements</p>	<p>Luxury items and improvements that do not become a permanent part of the real property are not eligible. Some examples of ineligible repairs/improvements are: Barbecue pits; bathhouses; dumbwaiters; exterior hot tubs; saunas; spas and whirlpool baths; outdoor fireplaces or hearths; photo murals; swimming pools; television antennas and satellite dishes; tennis courts; tree surgery. Additions or alternations to provide for commercial use are not eligible. Installation of a new pool or upgrade existing pool for cosmetic purposes.</p>

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#### COLLATERAL (continued)

Contractor requirements & Self-help	The contractor's licensing and bonding must meet all state and local requirements. If the repairs require more than one contractor, the services of a duly licensed and bonded general contractor must be utilized. The general contractor will be under the contractual obligation for the entire work to be performed from start to finish. The general contractor is responsible for hiring the different trades required to complete all of the work. "Self-help" is not permitted under any circumstance.
Requirement of Home Inspection	A complete home inspection is required for all REO and vacant properties. If the 203(k) consultant is a state-approved home inspector or a member of an accredited State or National Home Inspection Association, CMS will not require a separate Home Inspection to be completed. HUD REO properties built prior to 1978 must be tested for lead-based paint. CMS must obtain a copy of the lead-based inspection report and findings. The borrower must resolve with a State or EPA contractor to mitigate lead paint surfaces specified in HUD's report.
Defective Paint Surfaces	An automatic correction is required to all defective paint surfaces in or on structures and/or property improvements built before January 1, 1978. Contractors who perform the repair must be certified and must follow specific work practices to prevent lead contamination. A copy of the EPA or state-lead training certificate in the name of the party who performed the work must be provided. FHA Roster Appraisers & Inspectors as well as other independent third parties may perform inspections to verify if painting repairs have been performed as required. Inspections are to determine completion of the repairs only, and may be not be used as evidence of compliance. If the repair was made by the homeowner, they must provide a letter stating that they personally made the repair. FHA Roster Appraiser and Inspector as well as other independent third parties may inspect the work to verify completion of the repair is required.
Requirements for reviewing the contractor and the rehabilitation proposal	CMS will review the mortgagor's proposed work plan and cost estimates to ensure the planned work meets all program and repair recommendations as noted on the appraisal report. The mortgagor must provide CMS with a written cost estimate. All repairs and improvements must meet any and all local codes and ordinances as evidenced by a permit issued by the local authority, if applicable. The mortgagor and/or contractor must obtain all required permits prior to closing. The submitted cost estimates must clearly state the type of repair and the cost for completion of the work items. CMS will review and verify the contractor's credentials and work experience and may require the mortgagor to provide additional cost estimates from other licensed and bonded contractors if necessary. CMS reserves the right to decline the use of a specific contractor or consultant at its sole discretion. The selected contractor must agree in writing to complete the work for the amount of the cost estimate and must agree to complete all work in a professional and satisfactory manner within the permitted time frame. The contractor bid must mirror the Consultant's Work Write-Up and/or Specification of Repairs. A Plot Plan is required for the site that will have new additions and/or improvements made to the structure. A proposed Interior Plan of the dwelling is required to adequately display where the structural changes are contemplated, including any additions to the dwelling.
Construction Time Frame Requirements	The work must begin within 30 days of loan closing. The work must not stop prior to completion for more than 30 consecutive days. The work must be completed within the time frame shown on the agreement, but may not exceed 6 months. The contractor must finish the work in accordance with the written estimate and Homeowner/Contractor agreement within permitted time frame.

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#### COLLATERAL (continued)

HUD Consultant	<p>A HUD Consultant is required on 203k Standard transactions. The Consultant evaluates the property to determine what is required to meet FHA minimum property standards while taking into consideration non-FHA required improvements the borrower would like to make. The Consultant will ensure that the property meets program guidelines and provides the Work Write-up and Repair Specifications to be completed. The Consultant must be approved by HUD and accepted by CMS. The consultant identification number must be entered in FHA Connection during the case number assignment. Use the following link to determine if the Consultant is HUD approved: <a href="https://entp.hud.gov/idapp/html/f17cnsldata.cfm">https://entp.hud.gov/idapp/html/f17cnsldata.cfm</a></p>
Plan Review	<p>Prior to the appraisal, a HUD-accepted fee consultant must visit the site to ensure compliance with program requirements. The utilities should be on for the site review unless the write-up includes repair of utility systems. A HUD Consultant can also act as a Plan Reviewer. If the Plan Reviewer is acting as a Consultant for the borrower, then the plan review stage can be eliminated and the plan review fee is not applicable. The Plan Reviewer may not be a contractor on the job, because it is considered a conflict-of-interest.</p>
Release of Funds (Draw) from Rehabilitation Escrow Account	<p>The Rehabilitation Escrow Account funds will be released by CMS after receipt of a properly executed:</p> <ul style="list-style-type: none"><li>• Draw Request, Form HUD 9746-A (form includes Rehabilitation Inspection Report)</li><li>• Title Update, if necessary.</li></ul> <p>The only funds that may be released at closing are for permit fees, consultant fees, and architectural exhibits. Permits from the local or state building authority are required, where necessary. Release of funds for permit fees, consultant fees, or architectural exhibits is not considered a draw request. The excess estimated fees must be held in the contingency reserve. No draw requests will be approved for work that is not yet completed, including materials that have been paid for but not yet installed.</p>
Intermediate Draws from Rehabilitation Escrow Account	<p>A maximum of 4 intermediate draws are permitted. The draw schedule will be established and agreed upon by all parties. The inspector will visit the site with accepted architectural exhibits. Improvements must be satisfactorily completed in compliance with industry standards, local practices, and to the satisfaction of the Consultant. Escrowed funds may be partially released based on the percentage of work completed. If the work is acceptable, the inspector will complete Form HUD-9746 Draw Request, and will send to CMS for review. A holdback of 10% will be made on all intermediate draws. CMS may determine that additional compliance inspections are required throughout the rehabilitation period to ensure that work is progressing in a satisfactory manner. Release of funds is not authorized on this type of inspection. However, the borrower is responsible for paying the inspection fee. CMS may require a property inspection if there have been no draw requests for 30 days or more.</p>
Final Inspection	<p>A final inspection to determine that all listed repairs and/or renovations were satisfactorily completed is required regardless of the amount borrowed for the repairs or rehabilitation. The final inspection will be approved when all work has been satisfactorily completed in compliance with industry standards, local practices and to the satisfaction of the Consultant. The borrower must sign a Letter of Completion and submit to CMS requesting a final inspection and indicating that the work is satisfactorily complete. Upon receipt, CMS will schedule the inspection with the inspector. The inspector will visit the subject property to determine whether or not the work has been completed according to accepted exhibits.</p>

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Final Release Notice	The Final Release Notice will be issued by the Consultant after reviewing the file to ensure that all work has been satisfactorily completed. CMS may retain a holdback, for a period not to exceed 35 days (or time period required by law to file a lien, whichever is longer), to ensure compliance with state lien waiver laws or other state requirements. A copy of the final inspection report and Final Release Notice will be provided to the borrower.
Mechanic's and Material Men's Lien Waivers	CMS requires lien waiver at the time of final disbursement of funds from the Rehabilitation Escrow Account. To ensure the validity of the first lien on the subject property. A Lien Release form must be signed by the contractor prior to final disbursement.
Contingency Reserve	CMS requires a contingency reserve of 15% to 20%. The Underwriter or HUD Consultant may determine a contingency reserve greater than 15% is required due to the complexity of the project. Funds held back in contingency reserve must be used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items. Any unspent funds remaining after the final work item payments are made, must be applied to the mortgage principal. Foundation repairs require 20% reserve.
Minimum and Maximum Total Rehabilitation Cost	The minimum total rehabilitation cost for eligible improvements is \$5,000. The maximum total rehabilitation (line B14 of the Maximum Mortgage Worksheet HUD 92700) cost is 50% of the "Subject-to" appraised value.
Maximum Mortgage Amount Worksheet	203(k) Maximum Mortgage Worksheet must be used to calculate the mortgage amount. Complete the applicable worksheet based on transaction type, and length of ownership.
FHA Flips	Resales <= 90 days are ineligible. Flips must be 91 days or greater to be eligible. CMS requires a second full FHA appraisal by another appraiser if the resale date of a property is between 91 and 180 days following the acquisition of the property by the seller and the resale price is 100 percent or more over the price paid by the seller to acquire the property. The second appraisal must be completed "as-is." Seasoning is determined by Seller Acquisition Date & earlier of final Contract Acceptance Date or Application Date. All flips require a 12 month chain of title, contain no pattern of previous flipping or assignment of interest & evidence the property was marketed openly & fairly is required. HPMML loans may require second appraisal.



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#### CREDIT

Bankruptcy	<ul style="list-style-type: none"> <li>• AUS Approve - must be &gt; 2 years since date of discharge at the time of Case # Assignment and borrower must have re-established good credit, or chosen not to incur new credit obligations.</li> <li>• Manual - Chapter 7 If &lt; 2 years, but not &lt; 12 months, may be acceptable, if borrower can show that bankruptcy was caused by extenuating circumstances (must be approved by Underwriter Manager or Team Lead), and has exhibited a documented ability to manage his/her financial affairs.</li> <li>• Manual Chapter 13 must document the following:             <ul style="list-style-type: none"> <li>○ 1 year of the pay-out period under the bankruptcy has elapsed.</li> <li>○ All borrower's payments have been made on time.</li> <li>○ Borrower has received written permission from court to enter into mortgage transaction.</li> </ul> </li> </ul>
Consumer Credit Counseling	1 year of the pay-out has elapsed under the plan, borrower's payment performance has been satisfactory with all required payments made timely, and borrower has received written permission from the counseling agency to enter into the mortgage transaction.
Social Security Numbers	Required for ALL borrowers and must be validated for the non-borrowing spouse or registered domestic partner in Community Property States. See Guidelines.
Charge Offs	Refer to Guidelines.
Collections	AUS Approve/Eligible - The Underwriter must complete a capacity analysis off collection accounts with an aggregate balance $\geq$ \$2,000. Non-purchasing spouse's or registered domestic partner's collections are included in the combined balances for community property states. Monthly payments must be included in the DTI when cumulative balances are $\geq$ \$2,000. Manually underwritten loans, in addition to the requirements above, the reason for approving a loan when the borrower has collection accounts regardless of the amount must be documented. The Underwriter must determine if the collection was result of disregard for financial obligations, inability to manage debt, or extenuating circumstances. The borrower must provide a letter of explanation with supporting documentation for each outstanding collection.
Capacity Analysis for Collections	<p>Outstanding Collections with aggregate \$2,000 or more:</p> <ul style="list-style-type: none"> <li>• Prior to closing, the collection account is paid in full. Verification of acceptable sources of funds is required.</li> <li>• Payment arrangements have been made with the creditor. The monthly payment must be included in the DTI and documentation is required.</li> <li>• 5% of the outstanding balance of each collection will be used as the monthly payment and will be included in the DTI.</li> </ul>

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#### CREDIT (continued)

Judgments/Liens	<p>All outstanding judgments and liens must be paid prior to or at closing except when the borrower has an agreement with the creditor to make regular and timely payments. Copy of the agreement and the borrower is required to have made a minimum of 3 monthly scheduled payments prior to Case #. This includes non-purchasing spouses and registered domestic partners in community property states. Borrowers may not prepay scheduled payments in order to meet the minimum monthly requirement. Payment is included in the DTI.</p> <p>Manually underwritten loans, in addition to the requirements above, the reason for approving a loan when the borrower has judgment(s) or liens regardless of the amount must be documented. The Underwriter must determine if the judgment was result of disregard for financial obligations, inability to manage debt, or extenuating circumstances. The borrower must provide a letter of explanation with supporting documentation for each outstanding judgment.</p>
Foreclosure / Deed-in-lieu	<p>Must be &gt;3yrs from date of trustee's deed or FHA claim (CAIVRS-if applicable). This is measured from the recording date finalizing the foreclosure or the date the FHA claim was paid to the application date of the subject transaction. Borrower(s) with prior CMS Foreclosure or Deed in Lieu are not permitted at the time of Case # assignment.</p>
Short Sale	<p>A borrower is not eligible for a new FHA insured mortgage if a short sale was pursued to take advantage of declining market conditions and purchase a similar or superior property within reasonable commuting distance of prior residence. A borrower in default at time of short sale/restructure or pre-foreclosure is not eligible for a new FHA insured mortgage for 3 years from date of pre-foreclosure sale to Case # assignment.</p> <p>Manual UW Only: Borrower's current at time of short sale must have 0x30 mortgage and installment debt pay history for the preceding 12-month period. Borrower(s) with prior CMS Short Sale are not permitted.</p>
Modifications	<p>Must have 0x30 for most recent 12 months</p>
Disputed Accounts	<p>Disputed derogatory accounts <math>\geq</math> \$1,000 cumulative must be downgraded to ""Refer"" manual underwrite. Medical and accounts resulting from identity and credit card theft or unauthorized use are excluded. A letter from the creditor, police report, etc. is required.</p> <p>Disputed non-derogatory accounts are excluded from the \$1000 cumulative total which includes accounts with zero balance, accounts with late payments aged 24 months or older, or disputed accounts that are current and paid as agreed.</p>
FICO	<p>Minimum of 2 reported credit score required. All borrowers must have credit scores. Non-traditional credit not permitted.</p>
Minimum Payment	<p>If no payment is indicated, 5% for revolving accounts.</p>
Student Loan Payments	<p>Student loan(s) would be calculated as follows, regardless of the payment status. CMS must use either the greater of: 1% of the outstanding balance on the loan; or the monthly payment reported on the borrower's credit report; or the actual documented payment, provided the payment will fully amortize the loan over its term.</p>
Minimum Tradelines	<p>Borrowers must have sufficient credit history to generate a valid FICO score. Generally, an acceptable credit history does not have late housing, installment debt or major derogatory revolving payments. Authorized tradelines are not acceptable for establishing a credit history and may invalidate the FICO score.</p>
Non-Traditional Credit	<p>Not permitted.</p>

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#### CREDIT (continued)

Mortgage/Rental History*	PER AUS approved/accept for FICO > 580. 0x30 in previous 12 months for FICO 500-579 and all manually underwritten loans. Seasoning is measured to case number assignment.
Non-Purchasing Spouse	Credit report required for non-purchasing spouse or registered domestic partner in community property states. Debts must be added to DTI Ratio and Credit History must not be considered. Non-purchasing spouse may be added to title on a purchase transaction or may remain on title when refinancing. No other party other than the borrower or their spouse may be permitted to have a vested interest to the property.
Other Requirements	NSF activity, private mortgage lates, delinquent CAIVRS, LDP or GSA findings, mortgage lates not reporting on the credit bureau, significant delinquencies after bankruptcy, and any other credit delinquencies will supersede any "approved/eligible" finding.

#### INCOME/ASSETS

Debt Ratio	Loans with AUS Approve/Eligible - follow AUS decision. Loans with AUS Approve/Eligible and DTI > 53% require additional analysis to ensure the file's strength adequately offsets the high debt ratio, at least 2 positive factors should be cited on the underwriting and transmittal summary. Positive factors include: excellent credit history, conservative use of consumer credit, minimal consumer debt, long-term employment, significant liquid assets, sizable down payment, the existence of equity in refinancing loans, little or no increase in shelter expense, military benefits, satisfactory homeownership experience, high residual income, low debt-to-income ratio, tax credits for child care, and tax benefits of home ownership. Credit scores of 640 and under and DTI greater than 43% regardless of AUS decision require explanation for derogatory credit and a VOR or rent free letter (if applicable). Manually underwritten loans with FICO score > 580 may exceed 31%/43% ratios with acceptable compensating factors (Energy Efficient Homes, Verified and Documented Cash Reserves, Minimal Increase in Housing Payment, No Discretionary Debt, Significant Additional and Income Not Reflected in Effective Income and Residual Income) Refer to the CMS Underwriting Guidelines for applicability. Manually underwritten loans with FICO score 500 - 579 or non-traditional credit may not exceed 31%/43% ratios regardless of compensating factors. Refer to CMS Underwriting Guidelines for maximum ratios for manually underwritten loans.
Manual Underwriting	Permitted, loans receiving a Refer/Eligible may be eligible for downgrade to a manual underwrite. Manually underwritten loan must follow standard FHA guidelines as outlined in CMS FHA Lending Guide. Documentation waivers are not acceptable on manually underwritten loans. All manually underwritten loans require compensating factors supporting loan decision and 2 years of signed tax returns. Refer to CMS Lending Guide for maximum ratios for manually underwritten loans. All manual underwrites require an AUS to be run and "refer eligible" findings uploaded into the LOS. The AUS findings must be uploaded even when the Underwriter knows the loan will be manually underwritten upfront or the loan will be downgraded to a manual underwrite.

## Product Guidelines

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#### INCOME/ASSETS (continued)

Non-Taxable Income	Nontaxable income such as Social Security, Pension, Workers Comp and Disability Retirement income may be grossed up.
Income	All types of income must have been received for the most recent two consecutive years including overtime, bonus, second job, part-time, commission, self-employment.
Unacceptable Sources of Income	The following income sources are not acceptable for purposes of qualifying the borrower: Any unverified source of income, Income determined to be temporary or one-time in nature, Retained earnings in a company, Stock options, Trailing spouse income, Welfare benefits, VA education benefits (GI Bill), Income derived from State approved marijuana dispensary.
Assets	Minimum cash investment from borrowers own funds and/or gift (no cash on hand allowed). The actual dollar amount must be input on the PTF condition for minimum investment not just 3.5%. The amount will be entered on line C3 of 92700 on the majority of loans where the "as is" value is the same as the purchase price. When the borrower has over-bid the HUD REO appraisal or where the contract price exceeds the "as is" value, the sum of the contract price + total rehab cost - (less) the base loan amount (A1 + B14 - C4 of the 92700) is used for calculation. Refer to CMS FHA Guidelines for more information.
Unacceptable Sources of Assets	VA education benefits (GI Bill), Student loans and/or Grant funds, Employer tuition reimbursements, Unsecured borrowed funds, Cash on hand when borrower uses traditional banking sources.
Gifts	Gifts cannot be used as reserves for manual underwrites.
Documentation/4506T or 2907 Puerto Rico Tax Returns	Full income documentation loans only. IRS Form 4506T must be processed and income validated for most recent 2 years. Borrowers with income from Puerto Rico must: Sign form Modelo SC 2907 to obtain tax transcripts, returned Modelo SC 2903 transcripts for 2 years, and transcripts must be translated to English and notarized by 3rd party. The 4506T must be in the file with confirmation that states "no records found" when using Puerto Rico tax returns. The confirmation must be from the IRS website and contain the borrowers name and SSN.
Minimum Reserves	AUS: 1-2 Units: None. 3-4 Units: 3 Mos. PITI. On 3-4 units AUS will apply gift funds to the down payment. Manually Underwritten Loans: 1-2 Units: 1 Month. 3-4 Units: 3 Months.
2-4 Units/Rental Income	Proposed rents on 2-4 unit properties used to qualify require 2 months PITIA.
Non Occupant co borrower	Not permitted. All borrower's must occupy as primary residence

## Product Guidelines

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#### TYPES OF FINANCING

Rate Term Refinance	Only real liens tied to property may be paid off through refinance. Pay off of personal liens is not allowed.
Cash-out Refinance	Not permitted. Rate and term only.
Adjusted Values	For properties acquired by the Borrower within 12 months of the case number assignment date, an as-is appraisal <b>must</b> be obtained. The Adjusted As-Is Value is the As-Is Property Value. For properties acquired by the Borrower within 12 months of the case assignment date by inheritance or through a gift from a Family Member, CMS may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date.
Adding Borrowers	Adding occupying borrowers is allowed if currently occupying subject as primary residence for previous 6 months.
Buyer Contribution	Minimum investment of 3.5% required. The required 3.5% down payment is calculated off of the total of the sales price plus all rehab costs, not just the sales price. All down payment funds and cash to close must be documented and verified. Maximum Loan Calculations Maximum Loan Amount based on the applicable maximum mortgage worksheet Purchases - the maximum allowed LTV is the lesser of: <ul style="list-style-type: none"><li>• 96.5% of 110% after improved value</li><li>• 96.5% of the adjusted "as is" value plus rehab</li></ul>
Seller Contribution	Max contributions limited to 6%. Contributions include (not limited to): Discount, Closing Costs, Prepays and Up Front MIP. Financed closing costs may not be paid by seller contributions.

#### GENERAL

Ineligible	Escrow waivers and escrow holdbacks. HUD REO with repair escrow and HUD \$100 Down Payment, Energy Efficient Mortgage, Good Neighbor Next Door, Mortgage Credit Certificate (MCC)/Section 8 Voucher, borrowers with extenuating circumstances due to an Economic Event, Homes for Heroes, Heroes Home Advantage
Subordinate Financing	Not permitted.
Financed Reserves	CMS does not permit Financeable Mortgage Payment Reserves.
Down Payment Assistance	Down Payment Assistance programs are not permitted on 203k Standard loans.
Loan Terms Available	30 Year Fixed
Qualifying Fixed Products	Qualify at Note Rate

# Product Guidelines

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### GENERAL (continued)

State Specific - Texas	<p>A 10% statutory retainage should be withheld from each advance to cover any claim notices from subcontractors or suppliers. The entire retainage, representing 10% of construction costs, will be retained for 30 days after final completion. Additional monies requested for cost overruns and upgrades are secured under the builder's contract only if they are evidenced by change orders signed by both parties.</p> <p>Subject property must be a Texas homestead.</p>		
State Specific - West Virginia	<p>Maximum LTV/CLTV is 100% for properties in West Virginia. This maximum applies to all programs that otherwise allow LTV/CLTV to exceed 100%.</p>		
Program Fees	<ul style="list-style-type: none"> <li>• Inspection Fee - maximum \$350 per Inspection (Up to 5 inspections per file)</li> <li>• Initial Appraisal \$460-\$645 (range)</li> <li>• Consultant Fee (See chart below)</li> <li>• Plan Review Fee (See chart below)</li> <li>• Title Update Fee 2 @ \$150 each (total of \$300)</li> </ul>		
Consultant Fee and Feasibility Study/Plan Review Fee Calculation	<p>The Consultant Fee and Feasibility Study/Plan Review Fee calculations are based on the total amount of repairs.</p>		
	Repair Cost	Consultant Fee	Plan Review Fee
	< \$7,500	\$400	\$100
	\$7,501-\$15,000	\$500	\$100
	\$15,001-\$30,000	\$600	\$100
	\$30,001-\$50,000	\$700	\$100
	\$50,001-\$75,000	\$800	\$100
	\$75,001-\$100,000	\$900	\$100
	\$100,000	\$1000	\$100
Identity-of-Interest	<p>The borrower may not have a relationship with any party to the transaction including contractor, loan officer, real estate agents, broker etc. nor may there be an identity of interest between any other parties involved in the transaction other than in family member purchases as indicated below. An identity-of-interest exists if the originating lender, mortgagee of record, or mortgagor (or any general or limited partner, shareholder, director, officer, employee or authorized representative of the lender) can directly, or through one or more intermediaries, control or influence the decisions or policies of the contractor, closing agent or its employees, or vice versa. An identity-of-interest exists whenever there is a financial, family relationship, professional or business affiliation involved.</p> <p>Sales between family members are permitted as long as there are no other instances of identity-of-interest or conflict of interest.</p>		

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#### GENERAL (continued)

Identity-of-Interest - Consultant	The HUD Consultant may not have any personal interest, present or prospective, in the subject property, applicant, or proceeds of the mortgage.
Closing Agents	Must use CMS approved closing agents only. Identity of interest closing agents is not allowed under the 203k program. Identity of interest exists whenever there is a financial, family relationship, professional or business affiliation involved.
Program Forms/Documents	<ul style="list-style-type: none"> <li>• HUD Form 9746-A: Draw Request</li> <li>• Maximum Mortgage Worksheet</li> <li>• HUD Form 97200-A: 203K Borrower Acknowledgement</li> <li>• Contractor Profile - Contractor Reference, Work History, Evidence of License and Bonding</li> <li>• Owner/Contractor Agreement</li> <li>• Borrower Identity of Interest Certification</li> <li>• Consultant Identity of Interest Certification</li> <li>• Important Notice Regarding Contingency Funds of the Renovation Loan</li> <li>• W9 - Completed by Consultant, Contractor, and Plan Reviewer (if applicable)</li> <li>• Notice to Borrower Regarding the 203K Loan Program</li> <li>• Interest Rate on 203K Escrow Account</li> <li>• Information for Contractors</li> <li>• Consumer Renovation Information</li> <li>• Rehabilitation Loan Agreement</li> <li>• Rehabilitation Loan Rider</li> <li>• 203K Applicant Acknowledgement</li> <li>• Letter of Completion (Post Close)</li> <li>• Lien Release (Post Close)</li> <li>• Contingency Release Letter (Post Close)</li> <li>• "Final Release Notice (Post Close)</li> <li>• Consultant/Borrower Agreement</li> </ul>
Prepayment Penalty	Not permitted.
Maximum # of Properties	The maximum number of CMS properties financed for all borrowers is 2, including the subject property. The maximum number of all properties, including properties owned free and clear is 7 in accordance with FHA guidelines.
MIP Calculation	Divide the Base Loan Amount by the After Improved Value.

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#### GENERAL (continued)

Using Section 203(k) with 203(h) for Rehabilitation

If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies. Damaged residences located in a PDMDA are eligible for Section 203(k) mortgage insurance regardless of the age of the Property. The residence only needs to have been completed and ready for occupancy for eligibility under Section 203(k). All other Section 203(k) policy must be followed.

The FHA case number must be assigned within one year of the date the PDMDA is declared, unless an additional period of eligibility is provided. Completion of FHAC:

- ADP = 702 for 203(k)
- Program ID Code = 02 – Disaster Housing
- Housing Program: Other

CMS may disregard any late payments on a previous obligation on a Property that was destroyed or damaged in the disaster where the late payments were a result of the disaster and the Borrower was not delinquent on their Housing payment at the time of the disaster.

Mortgage rating, VOR or cancelled rent checks required.