Essex Mortgage
THE FIRST CHOICE IN MORTGAGE LENDING

PRODUCT DESCRIPTION

PROGRAM CODES

3031T 3-1 ARM	**3031TFLIP** 3-1 ARM with 90 day or less flip	**3031THB** 3-1High Balance ARM	**3031THBFLIP** 3-1 High Balance ARM w/ 90 day or less flip
3051T 5-1 ARM	**3051TFLIP** 3-1 ARM with 90 day or less flip	**3051THB** 5-1 High Balance ARM	**3051THBFLIP** 5-1 High Balance ARM w/90 day or less

LOAN TERMS

Government

30 Year

Fully amortizing, Fixed period Adjustable rate

OCCUPANCY

Primary Residence
Investment Properties: Streamline without appraisal only

MAXIMUM LOAN AMOUNT

Units	Floor amt	High Balance ceiling
1	$271050*	$625,500
2	$347000*	$800,775
3	$419425*	$967,950
4	$521250*	$1,202,925

REMINDER: FHA PROGRAM DESCRIPTIONS ARE NOT INTENDED TO REPLACE THE 4155.1 OR FHA TOTAL MORTGAGE SCORECARD USER GUIDE. *THE MAXIMUM BASE LOAN AMOUNT MAY NOT EXCEED THE STATUTORY LIMIT FOR EACH COUNTY/MSA: GO TO https://entp.hud.gov/idapp/html/hicostlook/cfm for complete county/MSA limits *effective for case numbers on or after 1/1/15

LTV/CLTV LIMITATIONS

Units	LTV w/o Sec Fin	LTV w/ Sec Fin	CLTV w/ Sec Fin	Max HCLTV
Purchase				
1-4 units	96.50%	100%	100%	100%
Rate & Term refinance (primary residence only)				
1-4 units	97.75%	97.75%	100.00%	100.00%
Cash out refinance (primary property only)				
1-4 units	85.00%	85%*	85%*	85%*
Streamline refinance: Not available on ARM programs				

Minimum Fico score is 640 for all transactions except High balance Cash out, which requires 660 score

TYPES OF FINANCING (I)

- **Purchase Mortgages**
- **Regular Rate and Term Refinance**
  - May be conventional to FHA or FHA to FHA
    - If property acquired less than 12 months ago & not FHA insured, the lesser of original sales price or current appraised value used
    - Subordinate financing seasoned 12 months or more (or purchase money 2nd's) may be paid off
    - Buyout of ex-spouse or other co-borrowers equity permitted with divorce decree, settlement agreement or other bona fide equity agreement

Streamline Refinance

- Not available on ARM programs

TYPES OF FINANCING

- **Cash-out Refinance**
  - Borrowers must have owned property for at least 6 months and made at least 6 payments
  - For mortgages with more than 6 months & less than 12 months, all payments must have been made when due
  - * Existing subordinate financing may remain regardless of CLTV, new subordinate financing not allowed on cash out refinances
  - Non-occupant co-borrowers cannot be added on cash out (existing non-occupants may remain)
  - If property acquired less than 12 months ago the lesser of original sales price or current appraised value used (unless inherited)

SECONDARY FINANCING	•*Defined as any financing other than the first mortgage that creates a lien against the property:* • Heloc's must use the maximum accessible credit limit to calculate the CLTV • No prepayment penalties • No Balloon payment in less than ten years (unless the property is sold or refinanced) • Any periodic payments must be calculated on an equal monthly payment • Such financing is not considered a gift, even it is a "soft" or "silent" second or has features forgiving debt • Government Agencies or Nonprofit agency: federal, state or local government agencies: cannot use agents to make the second lien, regardless of source of funds. • May provide secondary financing for the borrower's entire amount of required funds to close on a purchase • If the funds used for secondary financing are from an acceptable source, such as HUD HOME, or a government unit, the lien must be in the name of the eligible entity. • FHA insured first mortgage cannot exceed the FHA statutory limit for the area the property is located. The combined indebtedness may exceed the FHA statutory limit. • The CLTV ratio of all liens cannot exceed 100% of the cost to acquire the property. • The cost to acquire the property is the sales price + borrower paid closing costs, repairs, rehab expenses & prepaids • The required monthly payments for both the first and second plus other expenses cannot exceed the borrowers reasonable ability to pay.
UNDERWRITING	
QUALIFYING RATES AND RATIOS	Qualify at note rate for 3-1 AND 5-1 ARMS DU & LP Approved – Ratios evaluated by DU (see overlays for loan specific requirements)
BORROWER ELIGIBILITY	Borrower must be employed in the U.S. Tax Identification Number (TIN) is not acceptable Permanent Resident Aliens Unexpired Permanent Resident alien card required (green card) Non-Permanent Resident Aliens Must be a legal resident of the U.S. as evidenced by social security number & EAD Card issued by USCIS* Loans in name of Trust Not permitted *If the EAD will expire within 1 year and a prior history of residency status renewals exists, the lender may assume that continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal, based on information from the USCIS. Borrowers residing in the US by virtue of refugee or asylee status granted by USCIS are automatically eligible to work in the US. EAD card not required. Borrowers may not own more than 4 financed properties (cumulative for all borrowers)
NON- OCCUPANT COBORROWERS	When there are two or more borrowers but one or more will not occupy the property as his/her principal residence, the maximum mortgage is limited to 75% LTV/CLTV. However, maximum financing is available for: borrowers related by blood, marriage or law, such as spouses, parents-children, siblings, stepchildren, aunts-uncles and nieces-nephews OR unrelated individuals who can document evidence of a longstanding, substantial familial type relationship not arising out of the transaction. Note: if parent is selling to a child, the parent cannot be the co-borrower with the child unless the LTV is 75% or less. Restrictions on Non-Occupying borrower Transactions: If the LTV exceeds 75%, a mortgage with non-occupying co-borrower is limited to a one unit property. The non-occupying borrower arrangement may not be used to develop a portfolio of rental properties. The financial contribution by the non-occupant borrower and the number of properties owned may indicate that the family members are acting as "straw buyers". *FHA does not require that additional underwriting criteria, such as specific ratio's be met by either non-occupant borrower or occupying borrower with sufficient credit.
AUS/TOTAL SCORECARD	**Automated Underwriting requirements - DU or LP or Total Scorecard** • All loans must be submitted to FHA TOTAL SCORECARD A manual downgrade becomes necessary if additional information, not considered in the AUS/Total decision affects the overall eligibility & insurability of a mortgage otherwise rated as "accept" or "approve See the FHA TOTAL Mortgage Scorecard User Guide for specific guidance on Required Manual Downgrades: 1. Federal Eligibility: delinquent federal debt, Caivrs alert, Suspended or Debarred individuals 2. Credit issues: Foreclosure less than 3 years, Bankruptcy less than 2 years, Late Mortgage payments (3 or more X30, 1X60 + 1X30, 1 X 90) 3. Disputed Accounts/Collections/Public Records: may disregard if zero balance, resolved, both less than $500 & more than 24 months old 4.Non traditional & insufficient credit histories All manually downgraded case files must be fully underwritten to the requirements in the 4155.1 and any subsequent mortgagee letters. Documentation relief based on the AUS/Total Scorecard must be fully disregarded. Underwriter must sign the FHA LT using DE Chums number, not ZFHA. • Approve/Eligible: Follow DU decision and documentation requirements

<table>
<tr><td rowspan="1">CREDIT</td><td colspan="3">All borrowers must have a credit score. Authorized user accounts may not be considered unless joint with other applicants & additional credit must be established
Non-traditional credit not allowed
Lowest of 2 or middle of 3 score used as deciding credit score
Court ordered judgments and/or federal debts must be satisfied or paid in full OR payment plan with a minimum 6 month payment history required. (may not be pre-paid)
Is subject property is located in (or borrower resides) in a community property state, full credit report for non-participating spouse is required & all debts considered in ratios
The credit scores for all borrowers may not be lower than 640 for all loan types. High balance cash out requires 660.</td></tr>
<tr><td>INQUIRIES</td><td colspan="3">Total Scorecard Accept: Verify the actual monthly payment of any undisclosed debt & include & re-submit to AUS if the ratio's exceed benchmark maximum.
Determine that any funds borrowed were not/will not be used for the borrower's cash investment in the transaction.
If downgraded, all inquiries within the past 90 days need to be addressed & debt disclosed.</td></tr>
<tr><td>MORTGAGE OR RENTAL LIENS</td><td colspan="3">• If Mortgage history is not rated on credit report, provide 12 month rating directly from servicer, 12 months cancelled checks or credit supplement with 12 month rating.
• Mortgage/Rental Delinquencies - Loans will be ineligible:
• With one or more mortgage/rental delinquency of 30,60, 90 days or greater reported within the most recent 12 months
• Short payoff or short sale obligation in default (at the time of) within the last 3 years
• Previous FHA claim paid within 3 years of application for new mortgage</td></tr>
<tr><td rowspan="7">BANKRUPTCY, SHORT SALE & FORECLOSURE</td><td colspan="3">DU is not able to identify preforeclosure or short sales in the credit report data. Lenders must manually apply the preforeclosure sale requirements to DU loan case files, regardless of the underwriting recommendation received from DU.
The following table summarizes the waiting period requirements for all significant derogatory credit events:</td></tr>
<tr><td>Derogatory event</td><td>Waiting Period Req.</td><td>Requirements</td></tr>
<tr><td>Ch. 7,11 or 13 BK</td><td>2 years from discharge date</td><td>Re-established good credit and credit score per program requirement</td></tr>
<tr><td>Ch. 13 BK or consumer counseling (currently)</td><td>Minimum 1 years from payout period</td><td>Payment performance acceptable, all payments made on time
Borrower must receive permission from the court to enter into the mortgage transaction</td></tr>
<tr><td>Short sale/short payoff</td><td>3 years if delinquent at the time of sale</td><td>1-2 yrs. if borrower did not pursue short sale to take advantage of current market conditions</td></tr>
<tr><td>Foreclosure*</td><td>• 3 years unless there are extenuating circumstances
*High balance cash out: No foreclosures in 7 years</td><td>• 3 years
Not allowed on high balance cash out within 7 years</td></tr>
<tr><td>Foreclosure</td><td>• 1-3 years (less than 3 yrs.) with extenuating circumstances & no FHA claim was paid*
*If an FHA claim was paid, borrower is not eligible to apply for a new FHA mortgage until 3 years after the claim was paid.
Contact FHA for the date claim paid & note on LT.</td><td>Only if AUS approve/eligible AND
Significant extenuating circumstances that were beyond the borrowers control such as serious illness/death of a wage earner and the borrower has re-established good credit.
Divorce is not considered an extenuating circumstance, however if the loan was current at the time of divorce and ex-spouse awarded the property & the loan was later foreclosed, exception may be granted.
Note: the inability to sell the property is not an extenuating circumstance.</td></tr>
<tr><td>LOAN MODIFICATIONS</td><td colspan="3">Allowed with AUS/Total scorecard approval for purchases and full refinances.</td></tr>
<tr><td>TYPES OF DEBT</td><td colspan="3">Accounts may not be "paid down" to 10 months or less. Existing installment debt with less than 10 pmts remaining may be excluded ratio with AUS approval & no manual downgrade</td></tr>
<tr><td>REVOLVING</td><td colspan="3">Payoff of revolving accounts in order to qualify the Borrower is allowed</td></tr>
<tr><td>INSTALLMENT</td><td colspan="3">Installment debt accounts must be paid in full in order to omit from ratios.</td></tr>
<tr><td>LEASE PAYMENTS</td><td colspan="3">Must always be held in the ratios regardless of the number of months remaining.</td></tr>
<tr><td>STUDENT LOANS</td><td colspan="3">Student loans with a payment scheduled to begin within 12 month of closing must be included in ratio. Evidence of 12 month deferment required to exclude.</td></tr>
<tr><td>CONTINGENT / CO-SIGNED LIABLITY</td><td colspan="3">Contingent liabilities exist when an individual will be held responsible for payment of a debt should another party default. Unless the borrower can provide conclusive evidence from the debt holder that there is no possibility the holder will pursue debt collection against him/her should the other party default, the following rules apply:
Mortgage Assumptions: when a borrower remains obligated on an outstanding FHA,VA or conventional mortgage secured by a property that has been sold without a release of liability being obtained, the liability must be considered unless (a) the origination lender of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months or (b) the value of the property, as established by an appraisal or the sales price on the HUD-1 from the sale of the property, minus the UFMIP results in an LTV of 75% or less .
Co-signed Obligations: if the borrower is obligated on a car loan, student loan, mortgage or any other obligation, contingent liability applies unless the lender obtains documented proof that the primary obligor has been making payments during the previous 12 months on a regular basis & has no history of delinquent payments.
Copies of canceled checks for the last 12 months and a copy of the security agreement showing the person making the payments is co-obligated for the debt required.</td></tr>
<tr><td>NOT DEBT</td><td colspan="3">401Kcontributions & debts secured by 401K, union dues, open accounts with zero balance, automatic deductions to savings, child care and voluntary deductions</td></tr>
</table>

INCOME	
DOCUMENTATION REQUIREMENTS	Verbal Verification of Employment (Verbal VOE) & signed IRS 4506T Required for all borrowers and all types of income with the exception of passive income. Salaried borrowers: the verbal VOE must be completed within 10 days prior to note date. Self-employed borrowers: the verbal VOE must be completed within 30 days prior to note date. (independent 3rd party verification) 2 years IRS transcripts must be provided unless borrower is exempt from filing (4506t "record of account" results.)
BONUS/OVERTIME	Overtime & Bonus can be used to qualify if borrower has received for the past 2 years. The lender must develop an average of bonus and overtime for the past 2 years. Periods less than 2 years may be acceptable provided the lender can justify and document, in writing,the reason for using the income for qualifying. The lender must establish and document an earnings trend. If this income is declining, the lender must establish sound rationalization for including the income & must consider the declining amount. A period of more than 2 years must be used if the income varies significantly from year to year. 1. Most recent YTD paystub documenting at least 30 days of YTD income 2. W-2s covering the most recent two years. 3. VOE to confirm this income is likely to continue. If VOE states unlikely to continue, it may not be used to qualify.
COMMISSION	The borrower must have a 2 year history of receipt for use in qualifying. The income must be averaged unless declining. Lender must establish and document an earnings trend. If this income is declining, the lender must establish sound rationalization for including the income & must consider the declining amount. 1. Most recent YTD paystub documenting at least 30 days of YTD income. 2. W-2s and/or 1099s covering the most recent two years. 3. Complete signed individual federal tax returns for the most recent 2 years. Employee-paid business expenses (2106) reflected on the borrower's tax returns must be deducted from the borrower's gross income when calculating income.
PART TIME/2ND JOB/SEASONAL INCOME	Part time and seasonal income may be used if the borrower has an uninterrupted two year history of working 2 jobs and be likely to continue. For qualifying purposes "part-time" income refers to employment taken to supplement the income from regular employment. Part-time employment is not a primary job. Seasonal income is considered uninterrupted & may be used to qualify the borrower worked at the same job for the past 2 years & expects & is eligible to be rehired next season. 1. Most recent YTD paystub documenting at least 30 days of YTD income. (Part time) 2. W-2s covering the most recent two years Seasonal employment includes: umpiring baseball games in the summer or working at a department store during holidays.
SELF-EMPLOYMENT	All self-employed Borrowers are required to provide: Copies of signed individual (and business if appropriate) federal tax returns, including all applicable schedules, for the previous two years Year-to-date Profit & Loss & Balance Sheet if more than a calendar quarter has elapsed since the most recent calendar or fiscal tax year filed. The borrower is not required to provide business tax returns if all of the following can be met (a) tax returns show increasing self employment income over the past 2 years (b) funds to close are not coming from business accounts AND (c) the proposed FHA insured mortgage is not a cash out refinance. Lender must carefully analyze the business financial strength, including the source of the business income & the general economic outlook for similar businesses in the area. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline over the analysis period are not acceptable, even if the current income and debt ratio meet FHA guidelines.
EMPLOYMENT BY FAMILY OR INVOLVED PARTIES	If the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transaction, the following documentation must be obtained: Borrower's signed and completed personal federal income tax returns for the most recent two-year period Fully completed, signed and dated Verification of Employment form (VOE) W-2's for the most recent two tax years Current income reported on the VOE or pay stub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current VOE or pay stub, further investigation is needed to determine whether income is stable.
CHILD SUPPORT & ALIMONY	Alimony or Child Support income may be considered effective income if the payments are likely to be received consistently for the first 3 years of the mortgage The borrower can provide the final divorce decree, legal separation agreement, court order or voluntary payment agreement and evidence of 3 months receipt as documented by cancelled checks, bank statements, tax returns or court payment records. Child support may be grossed up as non-taxable income
INVESTMENT &TRUST INCOME	Interest and Dividends may be used if tax returns support a 2 year history. Lender should subtract any funds required to close before calculating projected income Note receivable may be used with copy of the note, documentation of consistent 12 month receipt & 3 year continuance Trust income may be used with 3 year continuance verified. Amount, frequency & duration of payments must be verified by the trust agreement or by the trustee statement
EXTENDED ABSENCE	Income from borrowers returning to work after an extended absence (6 months) & currently have less than a 2-year employment & 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 verified evidence of a 2 year employment history immediately proceeding the leave of absence

SOCIAL SECURITY AND RETIREMENT	All income from the Social Security Administration (SSA) including , but not limited to Supplemental Security Income (SSI), Social Security Disability Insurance (SSDI) and Social Security income can be used to qualify the borrower if the income has been verified, and is likely to continue for at least a three year period from the date of the mortgage application. Verify this income by obtaining any one of the following: Federal tax returns, the most recent bank statement evidencing receipt of income, a Proof of Income letter (aka a "Budget Letter or Benefits letter" that evidences income form the SSA or a copy of the borrowers Social Security Benefit Statements, SSA-1099-1042S. In addition to the verification of income, the lender must document the continuance of this income from the borrower (1) a coy of the last Notice of Award letter which states the SSA's determination on the borrowers eligibility for SSA income or (2) equivalent documentation that establishes the award benefits to the borrower . If any income from the SSA is due to expire within three years from the date of mortgage application, that income may only be considered as a compensating factor. • Social security income may be grossed up if deemed non-taxable by the IRS. • Retirement income must be verified from the former employer, or from federal tax returns. If any retirement income, such as employer pensions or 401k distributions will cease within the first full 3 years of the mortgage loan, the income may only be considered as a compensating factor.
RENTAL INCOME	• Rental income can be use to qualify or offset PITI subject to the following: (departure residence addressed elsewhere in matrix) • Rent from other properties already owned by borrower • 2 years 1040 with any gaps in rental income limited to 3 months • If rental owned less than 2 years, document receipt since acquisition and current lease • Gross rent less HOC vacancy • Income from Borrower occupied Property:1-4 units: actual or appraisers estimate of rent, less HOC's vacancy factor less PITIA (Principal, interest, taxes, insurance & HOA) • Income from roommates in borrowers SFR not acceptable • Income from boarders is acceptable if the boarders are related by blood, marriage or law and supported by tax returns **Net rental income is used to determine the maximum mortgage amount for three and four unit properties.Net rental income is calculated by using the appraiser estimate of fair market rent from all units, including the unit the borrower choses for occupancy and subtracting the greater of the appraisers estimate for vacancies OR the vacancy factor used by the jurisdictional Homeownership Center (HOC)** **The maximum mortgage amount for 3-4 unit properties is limited so that the ratio of the monthly mortgage payment divided by the monthly net rental income does not exceed 100%, regardless of the occupancy status. (property must debt service)**
ASSETS	
DOWN PAYMENT REQUIREMENTS	Borrower Investment: Difference between the sales price and the mortgage amount • Minimum down payment is 3.50% of the sales price or appraised value, whichever is less
SELLER CONTRIBUTIONS	Maximum of 6% paid by seller or real estate agents
GIFTS & ACCEPTABLE DONORS	In order for gifts funds to be considered, there must be no expected or implied expectation of repayment to the donor .An outright gift of the cash investment is acceptable if the donor is: •The borrower's relative (including family member acting as real estate agent due a commission) •The borrower's employer or labor union •A close friend with a clearly defined and documented interest in the borrower •A charitable organization or government agency or public entity that has a program providing home ownership to low-moderate income families or first time homebuyers The gift donor may not be a person or entity with an interest in the sale of the property, such as the seller, the realtor, the builder or an associated entity. Gifts from these sources are considered inducements to purchase and must be subtracted from the sales price. Only family members may provide equity credit as a gift on property being sold to other family members.
GIFTS & ACCEPTABLE DOCUMENTATION	A gift letter signed by donor and borrower(s) that includes the amount of gift, name, address, phone number, relationship to the borrower and that no repayment is required. If gift funds are in the borrowers account: obtain a copy of the withdrawal document showing it was from the donor's account & the borrowers deposit slip showing the deposit If gift provided at closing & in the form of a certified check from the donor:obtain donors bank statement showing withdrawal & copy of the certified check If provided at closing & in the form of cashiers check, money order or bank check: provide withdrawal document or cancelled check showing funds came from donors account If funds provided at closing in the form of a wire transfer: the gift letter to include donor's bank & account number. Provide copy of wire transfer to escrow showing bank & acct. If gift funds borroweed by donor, donor to provide written evidence funds borrowed from acceptable source (not from a party to the transaction, including lender) In all instances, a copy of the donors bank statement is required and recent large deposits must be sourced to document not provided by an unacceptable party
CHECKING AND SAVINGS	The most recent 30 day bank statement showing previous balance & current may be used to verify checking and savings accounts. If there is a large increase in an account or the account was recently opened, the lender must obtain from the borrower a credible explanation and documentation of the source of the funds. Verify that any recent debts were not incurred to obtain part, or all, of the required cash investment on the property being purchased. If previous balance not shown, 2 months required. Earnest Money must be verified and deposit sourced if it exceeds 2% of the sales price OR appears excessive based on the borrowers history of accumulated savings. Generally, any single deposit that is the greater of 25% or $1000 of the individual borrowers qualifying income must be sourced. If joint or multiple borrowers have separate accounts, single deposits that exceed 25% of the individual borrowers income must be sourced.
STOCKS & BONDS, IRA's, 401K & Keogh	Brokerage statement(s) for each stock, bond or mutual fund account for the most recent 2 months. Evidence of liquidation not required. Savings bonds: government issued bonds are counted at original price unless eligibility for redemption value are confirmed. Receipt of funds at redemption must be verified. Retirement accounts: Most recent 30 day statement required. up to 60% of the value of these assets may be included in funds to close. Document terms of withdrawal

	and/or borrowing & that the borrower is eligible for these withdrawals. Evidence of liquidation not required.

FUNDS NOT ALLOWED	□ Group Savings □ Cash saved at home □ Sweat Equity □ Pooled Funds □ Individual Development Account □ 1031 Tax Deferred Exchanges	
RESERVES	• Additional reserves may be required by AUS based on risk. Purchase or refinance of Three and Four unit properties: Borrower must have personal reserves equivalent to 3 months PITIA **Reserves may not be derived from a gift** **Cash out Equity Refis:** The cash out may not be used to meet the reserve requirement.	
SALE OF REAL OR PERSONAL PROPERTY, REAL ESTATE COMMISSION	The net proceeds from an arms-length sale of a currently owned real property may be used. Provide copy of purchase contract & fully executed final HUD-1 to document proceeds.If the property is not sold at the time of subject settlement, the existing PITI must be included in ratio's as a liability. Personal property sale:Documentation to verify borrower owns the personal property being sold, the value of the property, evidence the item was sold and receipt of proceeds. Non exclusive documentation examples: appraisal of item, dealer estimate,philatelic or numismatic association, insurance policy, bill of sale, title transfer. Cash sale proceeds will not be considered Real estate commission: if borrower is a licensed real estate agent entitled to a commission from the sale of the subject, he/she may use that amount for cash investment. A family member entitled to the commission may also provide it as gift funds to borrower (subject to gift documentation requirements)	
CONVERTING EXISTING HOME TO RENTAL	**Rental income of the property being vacated, reduced by the appropriate vacancy factor may be considered in the underwriting analysis under the following circumstances only. If neither exception can be met, the entire PITIA will be held in ratio's.**	
	<u>EXCEPTION</u>	**<u>Underwriting requirements:</u>**
	RELOCATIONS	The homebuyer is relocating with a new employer or being transferred by the current employer to an area not within a reasonable & locally recognized commuting distance. A properly executed lease agreement signed by the homebuyer & the lessee) of at least 1 year duration after the loan is closed is required. The security deposit and/or first months recent receipt is required
CONVERTING EXISTING HOME TO RENTAL	**Sufficient Equity in Vacated Property**	The homebuyer has a loan to value ratio of 75% or less,as determined by either a current (less than 6 months old) appraisal or the unpaid principal balance to the original sales price. The appraisal, in addition to using FNMA 1004, may be an exterior only using form FNMA 2055, and for condominium units, form FNMA 1075. A properly execute lease agreement of at least 1 year duration should be provided. Evidence of security deposit and or rent is at underwriters discretion

COLLATERAL

APPRAISAL	• Appraisal must be completed in compliance with 4150.2 CHG-1, 4155.2 and all subsequent pertinent Mortgagee letters All properties must meet FHA minimum property standards (MPS) Appraiser may not be on Wells Fargo's exclusionary list or second appraisal by approved appraiser is required and will be used for underwriting & LTV • Appraisals must be completed by appraisers on FHA's approved roster and in compliance with MDIA. • 1004MC and Interior photos required • Standard FNMA appraisal forms are required: 1004 (SFR) / 1073 (condo) / 1025 (units); FHLMC form 70 FHA 92800.5.b (Conditional Commitment) must be completed, signed and dated by DE underwriter • Any and all repairs, health and safety or defective conditions noted must be remedied prior to closing • Existence of Lead based paint requires remediation as detailed in 24 CFR part 35
ELIGIBLE PROPERTY TYPES	• 1-4 units • Condos-FHA approved HRAP or DELRAP • Attached or detached PUD's (no FHA approval required)
HAZARD & FLOOD INSURANCE	Full hazard insurance policy to cover loan amount, guaranteed replacement cost, or cost-new per the appraisal. Maximum 5% deductible. Condo's require HO6 (walls-in) policy required with minimum coverage of 20% of value. Flood insurance required if in flood zone A (to state requirements)
AGE OF APPRAISAL	**If the property is existing, proposed or under construction and the appraisal is not updated using the Appraisal update (1004D*)** •120 days from for the original appraisal plus 30 day extension. The 30 day extension cannot be used when the original appraisal has been updated using the appraisal update **If the property is existing, proposed or under construction and the appraisal is updated using the Appraisal update (1004D*)** • 240 days and consists of 120 days for the original appraisal *plus* 120 days for the Appraisal Update Report (1004D*) **If the property is HUD Real Estate Owned (REO)** • 120 days from the effective date of the appraisal. The sales contract must be ratified within 120 days or a new appraisal must be ordered. • Appraisals CANNOT be re-used after the mortgage for which the appraisal was ordered is closed. A new appraisal is required for each transaction. FHA prohibits Appraisal shopping, where lenders order additional appraisals in an effort to assure the highest possible value or the least amount of repairs or deficiencies. However, if a borrower switches from one FHA lender to another, a 2nd appraisal may be ordered by the 2nd lender if: the first appraisal contains material deficiencies, the appraiser is on the lender's exclusionary list, the appraiser fails to provide a copy of the report to the 2nd lender in a timely manner that would cause a delay in closing, posing potential harm to the borrower (loss of rate lock, foreclosure, late fees, contract deadline) the lender must ensure that both appraisals are retained in the case file. **1004D An appraisal update may not be used if the property value has declined or if the re-inspection reveals deficiencies/ other significant changes that did not exist initially*

FLIP GUIDELINES	This topic contains information of the prohibition on property flipping including: the definition of property flipping, inapplicability of property flipping restrictions to new construction, requirement that the seller be the owner of record, appraiser responsibility for analyzing prior sales of a property, restriction on resales occurring 90 days or less after acquisition, required second appraisal on properties sold between 91 and 180 days after acquisition, resales occurring between 91 days and 12 months following acquisition and exceptions to the 90 day restriction. **Definition of property flipping**: Practice where a recently acquired property is resold for a considerable profit with an artificially inflated value, often abetted by a lenders collusion with an appraiser. The restrictions listed in this topic do not apply to a builder selling a newly built home or building a home for a borrower.
FLIP GUIDELINES (cont.)	**Seller must be the owner of record:** to be eligible for a mortgage insured by FHA, a property must be purchased from the owner of record, the transaction may not involved any sale or assignment of the sales contract AND documentation verifying the seller is the owner of record must be in the casefile **Appraiser Responsibility for Analyzing Prior sales of a property:** to be in compliance with Standard fuel 1-5 of USPAP, appraisers are required to analyze any prior sales of a subject property in the previous 3 years for 1-4 family residential properties. Lenders may rely on the information provided in the URAR describing the prior sales history. **Restriction on Resale's Occurring 90 days or Less after Acquisition: **SEE TEMPORARY FLIP WAIVER BELOW**** If a property is re-sold 90 days or fewer following the date of acquisition by the seller, the property is not eligible for a mortgage insured by FHA. FHA defines the sellers date of acquisition as the date of settlement on the sellers purchase of that property and the resale date as the date of execution of the sales contract by a buyer intending to finance the property with an FHA insured mortgage. **Exceptions to the 90-day restriction:** the *only* exceptions to the 90 day resale restriction are for: properties acquired by an employer or relocation agency in connection with the relocation of an employee, resales by HUD under it's Real Estate Owned (REO) program sales by other United States Government agencies of single family properties pursuant to programs operated by these agencies sales of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions, sales of properties that are acquired by the seller by inheritance sales of properties by state and federally chartered financial institutions and government sponsored enterprises, state and local government agencies and sales of properties within Presidentially Declared Disaster areas Any subsequent resales of the properties described above must meet the 90-day threshold in order for the mortgage to be eligible for FHA insurance **Second Appraisal Required on Properties sold between 91 and 180 days after acquisition:lender must obtain a 2nd appraisal from another appraiser if:** the resale date of a property is between 91 & 180 days following the acquisition of the property by the seller and the resale price is 100% or more over the price paid by the seller when the property was acquired. **Resales Occurring Between 91 days and 12 months following Acquisition:FHA reserves the right to require additional documentation to support the resale value of a property if:** the resale is more than 90 days after the date of acquisition by the seller but before the end of the 12th month following the date of acquisition and the resale price is 5% or greater than the lowest sale price of the property during the preceding 12 months. At FHA's discretion, such documentation may include, but is not limited to, an appraisal from another appraiser. SECOND APPRAISALS MAY NOT BE PAID FOR BY THE BUYER UNDER ANY CIRCUMSTANCES **TEMPORARY FLIP WAIVER: On November 29, 2012, HUD extended the flip waiver through December 31, 2014: fully executed purchase contract on or prior to 12/31/14** Transactions where resales occur less than 90 days after sellers acquisition will be eligible subject to the following: 1. All transactions must be arms-length, with no identity of interest between the buyer and seller or any other party participating in the sales transaction. (a)seller must be the owner of record. (b) Limited liability companies, corporations or trusts that are serving as sellers are established & are operated in accordance with applicable state and federal law. No pattern of previous flipping activity exists for the subject property as evidenced by multiple title transfers within a 12 month time frame. (d) The property was marketed openly and fairly, through a multiple listing service (MLS), auction or developer marketing. 2. In cases in which the sales price of the property is greater than 20% above the sellers acquisition, the mortgage is eligible for the waiver only if the mortgagee: (a) Justifies the increase in value by obtaining a second appraisal full appraisal completed by RELS Valuation, which verifies that the seller has completed sufficient legitimate renovation, repair and rehabilitation work on the subject property to substantiate the increase in value or, in cases where no such work is performed, the appraiser provides appropriate explanation of the increase in property value since the prior title transfer and (b) Orders a property inspection and provides the inspection report to the purchaser before closing. The mortgagee may charge the buyer for the inspection. The inspector must have no interest in the property or relationship with the seller and must not receive compensation from any party other than the mortgagee or buyer. At minimum, the inspection must include i. the property structure, including the foundation, floor, ceiling, walls and roof; ii. The exterior, including siding doors, windows, appurtenant structures such as decks and balconies, walkways and driveways. iii. The roofing, plumbing systems, electrical systems, heating and air conditioning systems; iv. All interiors; and v. All insulation and ventilation systems, as well as fireplaces and solid fuel-burning appliances.
Repairs	If the property inspection report or appraisal notes that repairs are required because of structural or "health and safety" issues, those repairs must be complete prior to close. After completion of repairs, the inspector must conduct a final inspection. The borrower, lender or mortgage broker may order the inspection.