

GENERAL PROGRAM CRITERIA

Additional Eligible Borrower Requirements

ELIGIBILITY FOR FEDERALLY-RELATED CREDIT

The borrower must not be listed on the **HUD LIMITED DENIAL OF PARTICIPATION (LDP) GENERAL SERVICES ADMINISTRATION (GSA LIST) OR CREDIT ALERT INTERACTIVE VOICE RESPONSE SYSTEM (CAIVRS)**. These 3 lists include people suspended/debarred, presently having delinquent federal debt or otherwise excluded from participation in the Department's programs. They are not eligible to participate in the FHA-insured mortgage transaction. Refer to '[Processing the Loan](#)' for additional requirements.

Occupancy

The program is for owner occupied primary residence transactions except for streamline refinances without an appraisal.

Key Definitions in Primary Residence:

1. Primary residence: Occupied by the borrower for the majority of the calendar year.
2. Owner occupied: At least one borrower must occupy the property and sign the security instrument AND the note.
3. Occupancy status: The borrower must establish bona fide occupancy within 60 days of signing the security instrument and continue occupancy for at least one year.
 - Loan officers, processors, underwriters, closers and any other party involved in the mortgage transaction are responsible for identifying if it appears the borrower does not intend to meet the FHA occupancy requirements. If the borrower does not occupy the property after closing, the loan will not meet FHA requirements, and will create a potential repurchase situation or uninsured loan. Therefore prudence and common sense must prevail prior to closing. Contact the quality control department if you suspect the borrower will not occupy the property.

Second Residences/Investment Properties

A DE underwriter may not approve loans for secondary residences or investment properties (other than investment properties as described for streamline refinances without an appraisal) without written permission from the appropriate Home Ownership Center.

PROCESSING THE LOAN

Responsibilities

This section is written for the processing functions that follow after the loan originator has completed the mortgage application. All federal and state regulatory compliance requirements apply to FHA loan processing just as for conventional loans

General Overview

The URLA should be entered into the LOS exactly the way the loan originator took the application. The borrower must explain any discrepancies between the initial application and the final application. These discrepancies could be items such as major debts omitted on the original application, newly incurred debts, assets not revealed on the original application, etc. The initial and final application must be signed and dated by all borrowers.

- ☑ The processor should review the original application file to determine all FHA required disclosures have been signed. Refer to the [Steps through Regular FHA Processing](#) checklist in this chapter.

Initial loan set up includes obtaining the following information from FHA Connection:

- 1) Checking that all parties involved in the transaction do not appear on the LDP/GSA list
- 2) Verifying the borrower (s) are not listed in the Credit Alert Interactive Voice Response System, (CAIVRS)
- 3) Obtain a Case Number, and Appraisal assignment

Credit Alert Interactive Voice Response System (CAIVRS)

The CAIVRS system is found in FHA Connection

First select Single Family FHA

↳ Single Family Origination

↳ Case Processing

↳ CAIVRS Authorization

The initial loan set up should include accessing the CAIVRS system within FHA Connection to identify if the borrower(s) have had any delinquent government secured debt. CAIVRS will check government records for the last three years. A CAIVRS check is required on FHA purchases and regular refinance transactions. It is not a requirement to check CAIVRS for a streamline refinance.

If the borrower(s) do not have any delinquent debts the system will provide an authorization number that must be recorded in section 16 of the MCAW. If there are delinquent debts the system will provide the agency of the government that holds the debt.

UNDERWRITING THE BORROWER

Stable Monthly Income

Extended Leave/Gaps in Income

In cases where the borrower has returned to the work force after an extended absence the income may be considered effective and stable if the borrower has been employed in the current job for six months or more and the borrower can document a two-year work history prior to the absence from the work force. Acceptable documentation would be verification of employment (VOE), W-2's or pay stub. The DE underwriter must analyze the income to determine whether it can reasonably be expected to continue through the first three years of the mortgage loan.

TOTAL SCORECARD

On *Approved/Accept* scores no explanation is required for gaps of six months or less during the most recent two years. (ML 05-15)

For *Refer* loans a 30-day gap in employment in the past two years needs an explanation.

Overtime and Bonus Income

Both overtime and bonus income can be used to qualify the borrower, if it has been received for the past two years and the income is likely to continue as stated in the verification of employment (VOE). Overtime and bonus income with less than a two year history, but at least a 12 month history, may be acceptable provided the underwriter can support that continuance is likely.

- This type of income should be averaged for the past two years and the underwriter should be able to rationalize its use.
- If this type of income shows a continual decline the DE underwriter must provide a sound rationalization in writing for including the income to qualify the borrower.
- If there is less than a two year history, the underwriter should consider the income high risk and should not layer this risk with additional risks in the loan file.

Part-Time Income

For qualification purposes, part-time income refers to jobs taken to supplement the borrower's income from regular employment. Part-time/second job income, including seasonal work may be used in qualifying if the borrower has worked the part-time job uninterrupted for the past two years and will continue to do so. Income of less than two years may be used as effective income if the underwriter justifies and documents that the income's continuance is likely. Income which does not meet these requirements may be considered as a compensating factor only.

INSURING

Case Binder Notes

LEFT SIDE OF CASE BINDER

None of the documents for the left side of the case binder apply to Streamline Refinances **WITHOUT** an appraisal

Item #'s 6, 7 and 8a (if applicable) are the only documents that are on this side for a Streamline Refinance **WITH** an appraisal (include the stapled copy of the appraisal).

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| 1) | <p><u>MORTGAGEES ASSURANCE OF COMPLETION 92300</u></p> <p>This form is the escrow agreement between the lender and FHA. A repair escrow is only established in areas where exterior repairs can not be done due to poor or winter weather conditions. The underwriter approves that a repair escrow can be set up at closing. Check the underwriting conditions or the Compliance Inspection report (92051) at the bottom to see if the underwriter indicated this form is required.</p> |
| 2) | <p><u>COMPLIANCE INSPECTION REPORT 92051(OR OTHER ACCEPTABLE FORM)</u></p> <p>The form used by the appraiser must indicate the repairs that the appraiser has cleared. If form 92051 is used, look for the appraiser's signature in Section II AND the underwriter's signature in Sections III and IV. DO NOT SEND a 92051 without complete signatures. A final inspection is required for new construction cases. Refer to the new construction exhibits list in #5. Items</p> <p>If the repairs were inspected by the lender or other professional, look for the certification on that company's letterhead. The letter must be signed.</p> |
| 3) | <p>Wood Destroying Insect Infestation Report</p> <p>Per Mortgagee Letter 05-48, FHA has rescinded the standard requirement for a termite/pest inspection for existing properties (over one year old). Only when the appraiser notes visible signs of infestation or it is required by a state or local authority will a lender be required to include a copy of the inspection on a NCPA-1 form or the state mandated form.</p> <p>The form is signed by the borrowers at closing and is typically in the closing package. Insert the version signed by the borrower if there is one.</p> <p>If the house is classified as new construction, the termite inspection is addressed in the New Construction exhibits box.</p> |