



FHA Guideline Changes Effective for Case Numbers Assigned On or After June 15, 2015

Topic	Current FHA Guideline	New FHA Guideline
Assets		
Gift Funds as Reserves	<ul style="list-style-type: none"> Manual underwriting: Not allowed as reserves TOTAL Scorecard: Allowed as reserves 	<ul style="list-style-type: none"> Manual underwriting: Not allowed as reserves TOTAL Scorecard: Not allowed as reserves
Gift Funds – Documenting Transfer	Not clear about requiring donor’s bank statement in all instances.	Requires donor’s bank statement showing withdrawal of funds.
Earnest Money	Document source of funds if amount exceeds 2% of sales price or appears excessive based on borrower’s savings history.	Document source of funds if amount exceeds 1% of sales price or appears excessive based on borrower’s savings history.
Large Deposit Definition	No definition	For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value (lesser of purchase price minus inducements or the appraised value) the mortgagee must obtain documentation of the deposits. The mortgagee must also verify that no debts were incurred to obtain part, or all, of the minimum required investment.
Joint Funds Access	<ul style="list-style-type: none"> Manual underwriting: No guidance TOTAL Scorecard: If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds. 	Manual underwriting and TOTAL Scorecard: If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.
Retirement Accounts	<ul style="list-style-type: none"> Most recent account statement. Evidence of liquidation is not required unless the lender is using more than 60%. 	<ul style="list-style-type: none"> Most recent monthly or quarterly account statement. Use 60% and deduct existing loans unless there is “conclusive” evidence that a higher percentage may be withdrawn. Evidence of liquidation is required if any portion is required for funds to close.

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Credit		
Satisfactory Credit	<p>Borrower has acceptable credit if:</p> <ul style="list-style-type: none"> • no late housing or installment debt and • no major derogatory credit on revolving accounts. 	<p>A lender may approve a borrower if:</p> <ul style="list-style-type: none"> • acceptable payment history and • no major derogatory credit on revolving accounts in the last 12 months. <p>“Acceptable payment history” means:</p> <ul style="list-style-type: none"> • the borrower made all housing and installment debt payments on time for the previous 12 months, and • there are no more than two 30-day late mortgage or installment payments in the last 24 months. <p>“Major derogatory credit” means:</p> <ul style="list-style-type: none"> • payments made more than 90 days after the due date, or • 3 or more payments made more than 60 days after the due date.
Derogatory Event Wait Period Definition	<p>No definition. <i>(Some HOCs had verbally defined as ‘from event date to the new DE loan approval date’.)</i></p>	<p>Defines as ‘from event date to the new loan case number order date’.</p>
Non-Traditional Mortgage Credit Report (NTMCR)	<p>Required when using alternative credit unless NTMCR is not available.</p>	<p>NTMCR is not required. For borrowers without a credit score, either:</p> <ul style="list-style-type: none"> • obtain an NTMCR, or • develop a credit history using alternative references subject to documentation and verification guidelines, including: <ul style="list-style-type: none"> ○ review of public records to verify the provider’s existence, ○ verification of credit information using published addresses and telephone numbers, and ○ retention of the most recent 12 months of canceled checks or equivalent proof of payment.
Medical Collections	<p>Can be disregarded.</p>	<p>Excluded from definition of debt and will be disregarded.</p>

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Charge Offs	No detailed guidance.	<ul style="list-style-type: none"> • Defined as loans or debts written off by the creditor. • The lender must: <ul style="list-style-type: none"> ○ determine why they exist; ○ document reasons for approving the loan; and ○ obtain a letter of explanation from the borrower and supporting documentation.
Documents/Processing		
Age of Documents	Existing construction: 120 days New construction: 180 days	Existing and new construction: 120 days
Handling of Documents	Documents can't be transmitted from or through equipment of interested third parties.	Documents can't be transmitted from or through equipment of interested third parties or unknown parties.
Application Signatures	All borrowers must sign either the initial or final 1003.	All borrowers must sign both the initial and final 1003.
Borrower's Authorization Form	May obtain.	Must obtain.
Disclosures	No consolidated list of required disclosures.	Single list of required disclosures.
CAIVRS	Federal debt makes borrower ineligible.	VERIFIED federal debt makes the borrower ineligible.
Excluded Parties	Check all parties to the transaction.	Check all parties to the transaction including processor, underwriter, appraiser and 203(k) consultant.
Re-verification of Employment	No re-verification requirement.	Required within 10 days of loan disbursement.
Fees		
Tax Service Fee	Prohibited	Not mentioned
Prepays	Prepaid items include "other similar fees and charges" and the lender must use at least 15 days of per diem interest when estimating prepays on the GFE.	Prepaid items include flood and hazard insurance premiums, MIPs, real estate taxes, and per diem interest. There is no longer a 15-day interest requirement when estimating GFE.
Income/Employment		
Part-Time Employment Income	Underwriter discretion allowed when received less than 2 years and likely to continue.	Two years of uninterrupted part-time income is required. <ul style="list-style-type: none"> • Average the income over the prior 2 years, or • Use a 12-month average of hours at the current pay rate if the lender documents an increase in pay rate.

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Self-Employed – Declining Income	<ul style="list-style-type: none"> • The lender must establish the borrower’s earnings trend from the prior two years using tax returns. • Stable or increasing annual earnings are acceptable. • Businesses showing a significant decline in income are not acceptable, even if the current income and ratios meet FHA guidelines. • If the borrower’s earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year’s tax return, the borrower’s most recent year’s tax return or P&L must be used to calculate income. 	<ul style="list-style-type: none"> • Income from a business with a greater than 20% decline in income over the analysis period is not acceptable. <ul style="list-style-type: none"> ○ If using an AUS, the lender must downgrade to manual underwriting. • If there has been a 20% or greater decline, the income is still deemed stable if: <ul style="list-style-type: none"> ○ the reduction was the result of documented extenuating circumstances, ○ the income has been stable or increasing for at least 12 months, and ○ the borrower qualifies using the reduced income.
Frequent Job Changes	Okay if borrower continues to advance in income or benefits.	<p>If the borrower has changed jobs more than 3 times in the prior 12 months, or has changed lines of work, the lender must obtain:</p> <ul style="list-style-type: none"> • transcripts of training and education demonstrating qualification for the new position, or • employment documentation evidencing continual increases in income and/or benefits.
Hourly Earnings Calculation	No guidance.	<ul style="list-style-type: none"> • If the hours do not vary, use the hourly rate. • If the hours vary, use a two-year average. • If the hours vary and there is a documented increase in pay rate, use a 12-month average of hours at the current pay rate.
Overtime and Bonus Income Calculation	<ul style="list-style-type: none"> • General Rule – Overtime or bonus income must have been received for the past 2 years. • Exception – Periods of less than 2 years may be acceptable if the lender can justify and document in writing why its use is acceptable. • How to calculate the income <ul style="list-style-type: none"> ○ Average over 2 years. ○ Average over more than 2 years if the income varies significantly from year to year. 	<ul style="list-style-type: none"> • General Rule - Overtime or bonus income must have been received for the past 2 years. • Exception – Periods between 1 and 2 years may be acceptable if consistently earned for at least 1 year and likely to continue. • How to calculate the income <ul style="list-style-type: none"> ○ Average over 2 years. ○ If the income from the current year decreases by 20% or more from the prior year, use the current year’s income.

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Commission Income	<ul style="list-style-type: none"> • Earned for 1-2 years okay if likely to continue. • Earned less than 1 year okay if: <ul style="list-style-type: none"> ○ pay change from salary to commission for similar position with same employer or ○ borrower would qualify if commission income was not used. • Calculate using two-year average. <ul style="list-style-type: none"> ○ If income has decreased, compensating factors are required. 	<ul style="list-style-type: none"> • Earned for at least 1 year in same or similar line of work and likely to continue. • Calculate by subtracting unreimbursed business expenses from the lesser of: <ul style="list-style-type: none"> ○ the average net commission earned over the past 2 years (or however long it's been earned) and ○ the average income earned over the prior 1 year.
Voluntary Alimony or Child Support Payments	No guidance.	Allowed If, using a voluntary payment agreement, the lender: <ul style="list-style-type: none"> • obtains 12 months canceled checks, deposit slips, or tax returns, • if there is evidence of receipt for the most recent 6 months, may use the current payment to calculate income, and • if there are not 6 months of consistent payments, may average the income received over the prior 2 years, or less if the income has not been received that long.
Rental Income on Retained Primary Residence	Rental income may be counted when relocating outside of reasonable commute distance for job and borrower has 25% equity.	<ul style="list-style-type: none"> • Rental income may be counted when relocating and new residence is located at least 100 miles from previous residence. • If no history of rental income since the last tax filing, borrower must have 25% equity.
Non-taxable Income	Gross up using tax rate evidenced on last return. If borrower did not file a return, use tax rate of 25%.	Gross up using greater of 15% or actual tax rate. If borrower did not file a return, use tax rate of 15%.
Pension Income Calculation	No guidance.	<ul style="list-style-type: none"> • Use current amount if consistent. • Fluctuating amounts require use of 2-year (or time of receipt, if less) average
401K Income Calculation	No guidance.	<ul style="list-style-type: none"> • Use current amount if consistent. • Fluctuating amounts require use of 2-year (or time of receipt, if less) average

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Temporary Income Reduction	No guidance.	<p>For borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, lenders may consider the Borrower's current income as Effective Income, if it can verify and document that:</p> <ul style="list-style-type: none"> • the Borrower intends to return to work; • the Borrower has the right to return to work; and • the Borrower qualifies for the mortgage taking into account any reduction of income due to the circumstance. <p>For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the mortgagee may use the Borrower's pre-leave income.</p> <p>For Borrowers returning to work after the first Mortgage Payment due date, the mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.</p>
Insurance		
Flood Insurance	No calculation details.	<p>Amount at least equal to the lesser of either:</p> <ul style="list-style-type: none"> • The outstanding balance of the mortgage, less estimated land costs; or • The maximum amount of the NFIP insurance available with response to the property improvements.
Liabilities		
Deferred Loans	Loan deferred more than 12 months from closing do not have to be counted in ratios.	<p>All deferred obligations, regardless of when they will commence, must be included in the qualifying ratios. The lender must obtain evidence of:</p> <ul style="list-style-type: none"> • the deferral; • the outstanding balance; • the terms of liability; and

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		<ul style="list-style-type: none"> • the anticipated monthly payment. <p>The lender must use</p> <ul style="list-style-type: none"> • the actual monthly payment, or • if the actual payment is unknown <ul style="list-style-type: none"> ○ the terms of the debt or 5% of the outstanding balance, but ○ if it is a student loan, then 2% of the outstanding balance.
Installment Debt <10 Mos Pymts	TOTAL: May be excluded from ratios. Manual UW: May be excluded from ratios if debt will not affect ability to pay mortgage.	TOTAL and Manual UW: May be excluded from ratios only if: <ul style="list-style-type: none"> • they have cumulative payments of less than or equal to 5% of the borrower's gross monthly income, and • the borrower may not pay the debts down to achieve this percentage.
Alimony and Child Support	May be treated as reduction from gross income or as a monthly obligation.	<ul style="list-style-type: none"> • May be treated either as reduction from gross income or as a monthly obligation. • Obtain pay stubs covering at least 28 consecutive days to verify whether the borrower is subject to any order of garnishment. • Calculate the monthly obligation from the greater of: <ul style="list-style-type: none"> ○ the amount shown on the most recent decree or agreement establishing the obligation, or ○ the monthly amount of the garnishment.
Revolving Accounts – Monthly Pymt Calculation	<ul style="list-style-type: none"> • Greater of 5% of the balance or \$10, or • the actual monthly payment 	<ul style="list-style-type: none"> • 5% of the outstanding balance or • payment shown on credit report or statement
30-Day Account <i>(Accounts requiring payment in full each month.)</i>	No guidance	<ul style="list-style-type: none"> • Not included in ratios if borrower has paid in full every month for past 12 months. • If there were late payments in the last 12 months include 5% of the balance in the ratios. • Lender must document sufficient funds to pay off the balance and close the loan.

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Occupancy		
Multiple FHA Loans	Borrower may obtain second FHA loan for new principal residence when relocating for employment and current residence is more than reasonable commute to new residence.	Borrower may obtain second FHA loan for new principal residence when relocating for employment and current residence is more than 100 miles from new residence area.
Refinances		
Rate and Term Refinance Types – Changes	<ul style="list-style-type: none"> • Rate and Term (<i>refinance any mortgage – requires appraisal</i>) • Streamline Refinance with appraisal • Streamline Refinance with appraisal – Credit Qualifying • Streamline Refinance without appraisal • Streamline Refinance without appraisal – Credit Qualifying 	<ul style="list-style-type: none"> • Rate and Term (<i>refinance any mortgage – requires appraisal</i>) • Simple Refinance (<i>refinance FHA-insured mortgage – requires appraisal</i>) • Streamline Refinance (<i>no appraisal</i>) • Streamline Refinance – Credit Qualifying (<i>no appraisal</i>)
Rate and Term Maximum LTV	<ul style="list-style-type: none"> • 97.75% 	<ul style="list-style-type: none"> • 97.75% if owner-occupied for previous 12 months or owner-occupied since acquisition if acquired within the last 12 months, at case number date. • 85% if borrower has not occupied as principal residence for less than 12 months prior to case number date or if owned less than 12 months, has not occupied the property for the entire period of ownership. • 85% for all HUD-approved secondary residences.
Cash-Out LTV	<ul style="list-style-type: none"> • Owned 12 months or more: 85% of appraised value • Owned less than 12 months: lesser of 85% of appraised value or original sales price 	Owned and occupied as principal residence for 12 months* prior to case number assignment date: 85% of appraised value <i>*exceptions allowed for inheritance</i>
Rate and Term – Short Payoffs	Permits new subordinate lien in short payoff scenario.	Existing note holder must write off remaining debt in short payoff scenario.
Skipped Payments	Borrower must be current on the loan being refinanced for the month due prior to the month in which he/she closes the refinancing, and for the month in which he/she closes. (<i>Did not allow for a skipped payment.</i>)	Payments for all mortgages secured by the subject property must have been paid within the month due for the month prior to mortgage disbursement. (<i>This would allow for a skipped payment.</i>)

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Streamline		
Streamline Refinance Net Tangible Benefit – Term Reduction	Reduction in term alone does not constitute net tangible benefit.	Reduction in term alone constitutes net tangible benefit if the new rate does not exceed the current rate and payment does not increase by more than \$50.