

FHA Streamline Refinance, Conforming and High Balance

Topic Lender Seller Guide Section Last Updated	FHA STREAMLINE REFINANCE PROGRAM GUIDELINES <u>Overlays are underlined in black font.</u> Blue font indicates a notable change from FHA guidelines in effect prior to 9/14/2015. Revisions since the last publication are in pink font. "Days" are calendar days unless otherwise noted. References to FHA Handbooks and other external resources are provided for reader convenience only and are not intended to represent the full FHA requirement.
General Eligibility Requirements for FHA Streamline Refinance Transactions	• To be eligible for purchase by Lender, FHA Streamline Refinance Mortgage Loans must: ○ Be eligible for FHA insuring in the FHA Streamline Refinance Program under the guidelines in effect for the Loan transaction, including, but not limited to: ▪ <u>Single Family Housing Policy Handbook 4000.1</u>, as amended by any HUD notices or Mortgagee Letters, effective with case assignment dates on or after Monday, September 14, 2015, ○ Comply with the terms of this Program Guide and the Lender Correspondent Seller Guide. ○ Be eligible for Ginnie Mae pooling. • Eminent Domain: For FHA-Insured to FHA-Insured Refinances with cases endorsed on or before September 30, 2015, Mortgages that refinance a Mortgage that has been subject to eminent domain condemnation or seizure of a Mortgage are not eligible. If property is in an area where eminent domain has been exercised, a Borrower certification stating the Mortgage being refinanced was not subject to eminent domain, condemnation or seizure must be obtained, <u>II.A.8.d.II.(D) General Mortgage Eligibility</u>.
Age of Loan and Credit Documents 5.3.1. Mortgage Loan File Age	• Document Age: Follow FHA guidelines, <u>II.A.1.a.i.(A)(1)(a)-General Document Age</u>. In summary: ○ Documents used in the origination and underwriting of a mortgage documents (e. g. credit, employment, income and asset) must be no more than 120 days old at Disbursement Date. ○ Documents whose validity are not affected by the passage of time (e.g., divorce decree, tax returns, etc.) may be more than 120 days old at the Disbursement Date. ○ The "clock" starts to run on the day after the effective date or issue date of the document, whichever is later.
Application, Borrower Authorization	Follow FHA requirements, <u>II.A.1.a.i.(A)(3) Signature Requirements</u>, <u>II.A.1.a.(B) Mortgage Application and Initial Supporting Documentation</u>. In summary: • Application Form: All Borrowers must sign and date the initial and final Fannie Mae form 1003/Freddie Mac Form 65 (URLA). • Borrower's Authorization Form: Must be obtained. • HUD 92900-A: All Borrowers must sign and date page two of the initial form HUD 92900-A and sign and date the final form HUD -92900-A. • Co-Borrowers: The application may not be signed by any party who will not be on the Note. See <u>Borrower Eligibility, Co-Signers</u>. • See <u>Non-Borrowing Spouse</u> for authorization requirements. • See <u>Electronic Signatures</u> for electronic delivery and signature requirements. • Non-Credit Qualifying: <u>Special Documentation and Procedures for No Credit Streamline Refinances, II.A.8.d.vi.(5)(b)</u> ○ An abbreviated URLA may be used on Non-Credit Qualifying Streamline Refinances. Sections IV, V, VI, and VIII (a-k) are not required to be completed on an abbreviated URLA, provided all other required information is captured.
Appraisal 9.0. Appraisal	• FHA does not require an appraisal on a Streamline Refinance transaction, <u>II.A.8.d.vi.(4)(I) Appraisal and Inspection Requirements on Streamline Refinances</u>. ○ No AVM or other valuation product is required by Lender (no overlay). ("With appraisal" option is no longer available from FHA). • Ignoring or setting aside an appraisal ○ The receipt or possession of an appraisal in the Loan file does not affect the eligibility or maximum mortgage amount on Streamline Refinances, <u>II.A.8.d.(4)(I) Appraisal and Inspection Requirements on Streamline Refinances</u>.
Assets, Reserves, Funds to Close	• Funds to Close: Verify liquid assets for borrower funds to close, in excess of the total mortgage payment of the new mortgage, in accordance with <u>II.A.5.c. Asset Requirements (Manual)</u>. • Credit Qualifying • For Credit Qualifying Streamline Refinance transactions, the following requirements additionally apply: ○ Asset Requirements, Manual, <u>II.A.5.c. Asset Requirements (Manual)</u>, which includes reserve requirements as follows: ▪ One month's PITI for 1-2 unit properties ▪ Three month's PITI for 3-4 unit properties ○ The requirements in Underwriting of Assets (Manual), <u>II.A.5.d.v. Final Underwriting Decision (Manual)</u>, <u>Underwriting of Assets</u>
Assumptions	• All Streamline Loans: If the borrower assumed the Loan that is being refinanced, they must have made six payments since the time of assumption, <u>II.A.8.vi.(C)(4)(a) Mortgage Loan Seasoning Requirements</u>. See <u>Seasoning</u>. • Non-Credit Qualifying: <u>II.A.8.d.vi(5)(a) Streamline Refinance Non-Credit Qualifying Borrower Eligibility</u> ○ Mortgages that have been assumed are eligible (for Non-Credit Qualifying) provided the previous borrower was released from liability.
AUS and Underwriting 10.4. General Mortgage Loan and Transaction Eligibility	• All Streamline Refinances must be manually underwritten, <u>II.A.4.a. Use of TOTAL Mortgage Scorecard</u>, <u>II.A.8.d.vi.(C)(4)(b) Use of TOTAL Mortgage Scorecard on Streamline Refinances</u>.

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Borrower Eligibility 10.5. Borrower Eligibility 10.6 Trust Eligibility	- All Borrowers must meet FHA guidelines, <i>II.A.1.b.ii Borrower Eligibility</i>. - Borrower must be a natural person. - No title taken as business entities allowed. - Nonprofit entities, organizations and government agencies considered by FHA to be eligible Borrowers are not eligible for any FHA products sold to Lender. - Loans to owners and employees and/or its affiliates and subsidiaries of the Originating Broker Company are not eligible. - Maximum four (4) Borrowers per Loan. - Maximum four (4) properties serviced by Lender per Borrower. Social Security Number: All Borrowers must have a valid social security number, <i>II.A.1.b.ii.(A)(1) Social Security Number</i>. SSNs must be validated through FHA Connection (FHAC). Residency: Borrowers with lawful permanent resident status are eligible, but must provide proof of lawful permanent residence. - FHA does not accept a social security card as sufficient to prove immigration or work status, <i>II.A.1.b.ii.(A)(9) Residency Requirements</i>. - Non-permanent resident aliens, (foreign nationals) are not eligible - Borrowers with diplomatic immunity, and “foreign politically exposed” Borrowers are not eligible Cosigner Requirements: Cosigners are liable for the debt and must sign the Note. Cosigners do not hold an ownership interest and do not sign the security instrument. FHA requires that non-occupying cosigners be US Citizens or have principal residence in the US, <i>II.A.1.b.ii.(A)(5) Cosigner Requirements</i>. Non-Borrowing Spouse: If a non-borrowing spouse resides in a community property state, OR the property being insured is located in a community property state, see <i>Non-Borrowing Spouse</i>.
Cash to Borrower	<i>Maximum Mortgage Calculation for Streamline Refinances, II.A.8.d.vi.(C)(4)(j)</i> Maximum Cash to Borrower: Streamline Refinance must not result in cash to the borrower greater than \$500 at disbursement. Refund of Unused Escrow Balance: Cash to the borrower resulting from the refund of the borrower’s unused escrow balance from the previous mortgage must not be considered in the \$500 cash back limit whether received at or subsequent to disbursement. Principal Balance Reduction: Excess cash back may be used to reduce the borrower’s outstanding principal balance to satisfy the maximum cash back \$500 requirement. Payoff Statement(s) required: <i>The payoff statement(s) on the existing mortgage(s) must be in the Loan file delivered to Lender.</i>
Compliance 8.9 Higher Priced Mortgage Loans 8.9.8. Borrower Ability to Repay 5/13/2016	Origination Fees and Other Closing Costs: The Mortgagee may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the Mortgage, including a Tax Service Fee. Charges may not exceed the actual costs. <i>II.A.4.d.i.(B)(2)(a)</i>. The Mortgagee must comply with HUD’s Qualified Mortgage Rule at <i>24 CFR § 203.19</i>. ATR/QM: For Loans subject to the ATR/QM Rules, FHA Loans sold to Lender must be safe harbor or rebuttable presumption Qualified Mortgage (QM) Loans according to the <i>HUD Final Rule</i>. High Cost Ineligible: Loans exceeding any applicable federal, state or municipal High Cost limits, are not eligible for purchase by Lender. Higher-Priced: Lender will NOT purchase Higher Priced Mortgage Loans (HPML) Disclosures: The Loan file delivered to Lender must document that the Borrower was provided with all disclosures required by FHA and Applicable Law. FHA disclosure requirements are provided in <i>II.A.1.a.ii. Disclosures and Legal Compliance, (A) HUD Required Disclosures</i>. TRID Closing Disclosure (CD) Signature Requirements: - FHA requires that the Closing Disclosure or similar legal document be complete and signed by all required parties, and - The <i>Settlement Certification</i> must be complete and signed by the Borrower and settlement agent, <i>II.A.7.b.v.Closing Disclosure and Settlement Certification, 3/14/2016</i>. - Also see Lender’s <i>TRID Quick Reference Guide</i> at <i>SellerWeb > Compliance > TRID Quick Reference Guide</i>
Condominiums (Common Interest Communities) 10.7.5. Condominium Requirements	<i>The Property Eligibility and Acceptability Criteria section in HUD Handbook 4000.1, including the requirements for Condominium Units, do not apply to Streamline Refinance transactions. (Source – FHA FAQ, 6/17/2015)</i> - However, property types must be eligible for delivery to Lender. For property types eligible for delivery to Lender, see <i>Property Eligibility</i>.
Credit Qualifying - Definition	<i>II.A.8.d.vi.(C) Streamline:</i> - Borrowers are eligible for a Streamline Refinance with credit qualification if at least one borrower on the existing Loan remains as a borrower on the new Loan. - Loan must meet the FHA manual underwriting requirements for the following guidelines: - Mortgage Payment History for the program - Asset, Reserves and Funds to Close requirements manually underwritten Loans and for the program - Credit History - Income and Employment - Debt-to-Income Ratio - RMCR or tri-merge credit report is required. - Lender requires at least one traditional credit score per borrower. See Credit Requirements. - FHA requires 6 months payments have been made subject property mortgage being refinanced. See <i>Seasoning</i>. - FHA requires no late mortgage payments in past 6 months, and no more than 1 X 30 in past 12 months. See <i>Mortgage Payment History</i>. - No <i>Appraisal</i>, <i>AVM</i> or other valuation product is required. - Also see the <i>Non-Credit Qualifying Definition</i>.

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Credit Requirements 10.4.2. Credit Report Requirements	Non Credit Qualifying: • "Mortgage Only" Credit Report Required: ○ RMCR or tri-merge credit report is not required, <i>II.A.5.a. Credit Requirements (Manual)</i>, <i>II.A.8.d.vi.(4)(g) Borrower Credit Reports</i>. However, ▪ <u>Lender requires at least one traditional credit score per borrower.</u> ▪ <u>Loans where every Borrower does not generate a traditional credit score are NOT eligible.</u> ○ "Mortgage Only" credit report with scores is typically sufficient. ○ Minimum Decision Credit Score (MDCS) for primary residence must be ≥ 640. • Delinquent Federal Debt: Borrower ineligibility due to delinquent federal debt does not apply to Streamline Refinance transactions, <i>II.A.8.d.vi.(C)(1)</i>, <i>Non-Credit Qualifying Exemptions, Credit Qualifying Exemptions</i> Credit Qualifying: • RMCR Credit Report Required: ○ RMCR or traditional tri-merged credit report is required for each Borrower who will be obligated on the Loan. ○ However, joint reports may be used for individuals with joint accounts, <i>II.A.5.(a).i. Credit Requirements (Manual)</i>. ○ <u>Minimum Decision Credit Score (MDCS) for primary residence must be ≥ 640.</u> • For non-borrowing spouse credit report requirements, see Non-Borrowing Spouse.
Credit History	Non-Credit Qualifying • Credit and capacity analysis (including income and employment) are not required, <i>II.A.8.d.(c)(ii) Non-Credit Qualifying</i>. • Delinquent Federal Debt: Borrower ineligibility due to delinquent federal debt does not apply to Streamline Refinance transactions, <i>II.A.8.d.vi.(C)(1)</i>, <i>Non-Credit Qualifying Exemptions, Credit Qualifying Exemptions</i>. • Mortgage Payment History: See Mortgage Payment History. Credit Qualifying • Collection Accounts: Cumulative balances greater than \$2K must be paid off, or a payment must be considered in the Borrower's DTI, <i>Collection Accounts, II.A.5.iv.(N) (Manual)</i> • Delinquent Federal Debt: Borrower ineligibility due to delinquent federal debt does not apply to Streamline Refinance transactions, <i>II.A.8.d.vi.(C)(1)</i>, <i>Non-Credit Qualifying Exemptions, Credit Qualifying Exemptions</i>. • Medical Collections: Medical collection obligations are not considered debt and can be disregarded, Obligations Not Considered Debt, II.A.5.a.iv.(Q) (Manual) • Non-Traditional Credit: Use of non-traditional credit or a non-traditional credit report (NTMCR) are NOT eligible for purchase by Lender. • Short Payoff Refinance: Short payoff refinance transactions are not eligible for delivery to Lender. • Tax Liens: FHA permits federal tax liens to remain unpaid provided the Borrower has entered into a valid repayment agreement, and made at least 3 months timely payments. Borrower cannot prepay scheduled payments to meet the 3 month requirements. Tax lien holder must subordinate the tax lien to the FHA-insured mortgage, <i>II.A.I.b.ii.(A)(12)Delinquent Federal Tax Debt</i>. • Charge Offs: Defined as a debt written off by the creditor that do not have to be included in DTI. U/W must determine and document reason for each charge off, obtain Borrower explanation letters and supporting documentation, <i>II.A.5.iii. Evaluating Credit History (Manual)</i>. • Credit Standard: Lender may approve a Borrower if: <i>II.A.5.iii. Evaluating Credit History (Manual)</i> ▪ Acceptable payment history, and no major derogatory credit on revolving accounts in previous 12 months. ▪ "Acceptable payment history" means: All housing and installment debt payments made on time for the previous 12 months, and no more than 2 X 30-Day late installment payments in previous 24 months. ▪ Mortgage Payment History: See Mortgage Payment History. ▪ "Major derogatory credit" means: Payments made > 90 days after the due date, or 3 or more payments > 60 days after the due date. ▪ Derogatory Event Wait Period Definition: Defined as "from event date to the new Loan case number assignment date." • Housing History: (If borrower has owned and occupied subject property for less than 12 months) verify and document previous months housing history to equal 12 months. If living rent free, obtain verification from the property owner of where borrower resides and for how long, <i>II.A.5.(C) Payment History on Housing Obligations (Manual)</i>. (Note: Also see Seasoning) • Foreclosure, deed-in-lieu within 3 years generally are not eligible. Period begins with date title transferred from borrower, <i>II.A.5.a.iii.(I)</i>. (Timeshares are not included). • Non-borrowing spouse credit report and credit report analysis requirements, see Non-Borrowing Spouse.

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Debt-to-Income Ratios 4/29/2016	Non Credit Qualifying: - Credit and capacity analysis (including income and employment) are not required, <i>II.A.8.d.(c)(ii) Non-Credit Qualifying.</i> Credit Qualifying: - FHA requires two types of ratio calculations: Total Mortgage Payment to Effective Income Ratio (PTI), and Total Fixed Payment to Effective Income ratio (DTI), <i>II.A.5.d.vii. Calculating Qualifying Ratios, (Manual).</i> Debt-to-Income Ratio Calculations: For complete income liability and debt evaluation requirements, see, <i>II.A.5.iv.(A), Evaluating Liabilities and Debts (Manual).</i> 30 Day Accounts: <u>Not included in ratios if Borrower has paid in full every month for the past 12 months. Document sufficient funds to pay off balance and close. If any late payments in 12 months, use 5%, 30-Day Accounts, II.A.4.iv.(I)(Manual)</u> Alimony and Child Support: Alimony may be treated as a reduction from gross income or as a monthly obligation. Child support and maintenance are to be treated as a recurring liability. <u>Must obtain 28 consecutive days paystubs to determine whether garnished. Calculate the monthly debt from the greater of the amount on the most recent decree or agreement, or the amount of the garnishment, Alimony, Child Support and Maintenance, II.A.5.iv.(D)(Manual)</u> Authorized User Accounts: <u>If primary account holder has made all of the previous 12 months payments timely, can omit from ratios. If less than 3 months history in past 12 months, include in ratios, General Liabilities and Debt, II.A.5.iv.(A)(Manual)</u> Deferred Obligation: <u>Must be included. Obtain evidence of the deferral, outstanding balance, terms, and anticipated monthly payment. Use the actual payment if available. If not available for installment debt, use the term of the debt or 5% of the outstanding balance, 4000.1 II.A.4.b.iv. (G)(TOTAL), II.A.5.a.iv.(F) (Manual).</u> Student Loans - NEW: Must be included. Use either: 1. Greater of 1% of the outstanding balance or the credit report payment, or 2. Use the actual documented payment, if it will amortize over the life of the loan. , <i>Effective 6/30/2016: 4000.1 II.A.4.b.iv.(H)(TOTAL), II.A.5.a.iv.(G)(Manual.</i> See the SF Handbook for documentation requirements. Note: This calculation may be used immediately, but must be used beginning with case numbers assigned on or after 6/30/2016. Energy System Leases: Are not required to be included in DTI. Installment Debt < 10 Months: <u>Closed-end debts that will be paid off w/in 10 months do not have to be included if the cumulative payments of all such debts are less than or equal to 5% of the Borrower’s gross monthly income. Borrowers may not pay down debt to meet the 10 month requirement or achieve the percentage, General Debts and Liabilities, II.A.5.iv.(A)(Manual)</u> Revolving Debt: <u>Use 5% of the outstanding balance or the payment shown on the credit report or statement, Revolving Charge Accounts, II.A.5.iv.(H)(Manual)</u> Compensating Factors, Manual: General FHA guideline for manually underwritten Loans, with usable score (MDCS) ≥580 are below. (Non-occupant co-borrower income cannot be included), <i>II.A.5.d.viii Approvable Ratio Requirements (Manual).</i> (*Cash reserves – 3 months PITI 1-2 units, 6 months PITI 3-4 units) 31/43: No compensating factors required 37/47: One compensating factor required: Verified and documented *cash reserves; minimal housing payment increase; or residual income 40/40: No discretionary debt 40/50: Two compensating factor required: Verified and documented *cash reserves; minimal housing payment increase; residual income, or significant income not in Effective Income - See <u>Non-Borrowing Spouse</u> for treatment of non-borrowing spouse debt. - Also see <u>Income and Employment</u> and <u>Tax Transcripts and 4506-T</u> in this program guide.
Deed Restrictions 10.9. Resale Deed Restrictions	<u>Mortgage Loans subject to resale deed restrictions, other than an acceptable Age Deed Restriction on a one-unit Property for Borrower’s principal residence, that otherwise meets FHA guidelines, are NOT eligible, II.B.3.c.ii.(E) Easements and Deed Restrictions.</u>
Disaster Policy 10.10. Disaster Policy 5/13/2016	For properties in FEMA-Declared disaster areas, lender requires a prior-to-purchase inspection
Escrows/Impounds 5.19. Escrows/Impounds 5/13/2016 Citation Added	Escrow/Impound Requirements: All Loans must meet FHA requirements for a RESPA compliant escrow/impound account for taxes, insurance, and mortgage insurance premiums, <i>II.A.6.a.viii. Projected Escrow, II.A.8.d.vi.(C).(4).(h) Funds to Close, 3/14/2016</i> The escrow account must be sufficient to meet the following obligations when they become due: - Hazard insurance premiums, real estate taxes, MIP, special assessments, flood insurance premiums, Ground Rents (if applicable), and any item that would create a lien ahead of the mortgage, other than HOA fees. <u>Flood insurance must be equal to the lesser of: The outstanding mortgage balance, less est. land costs, OR, the maximum amount of NFIP insurance available for the property improvements, II.A.1.b.iv.(1) Special Flood Hazard Areas.</u> Optional Insurance Items: Lender does not permit escrows for optional insurance items, such as optional flood or earthquake insurance.
Escrow Holdbacks or Repair Funds 5/13/2016	Escrow Holdbacks: Not permitted

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Exclusionary Lists 10.4.5. <u>Exclusionary List</u>	• CAIVRS: Borrower ineligibility due to delinquent federal debt does not apply to Streamline Refinance transactions, <i>II.A.8.d.vi.(C)(1), Non-Credit Qualifying Exemptions, Credit Qualifying Exemptions</i> ◦ Lenders are not required to screen Streamline Refinance borrowers through the Credit Alert Verification Reporting System (CAIVRS). • HUD LDP / SAM: The Mortgagee must check the HUD Limited Denial of Participation (LDP) list to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction. • The Mortgagee must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation, <i>II.A.8.d.(4)€Reviewing Limited Denial Participation and SAM Exclusion Lists.</i>

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Income and Employment 5/13/2016	Non Credit Qualifying: - Credit and capacity analysis (including income and employment documentation and analysis) are not required, <i>II.A.8.d.(c)(ii) Non-Credit Qualifying</i>. Credit Qualifying: Continuity of Income - Income must be reasonably likely to continue for 3 years and otherwise meet FHA requirements, <i>Income Requirements, II.A.5.b.(Manual)</i> Non-Occupying Borrower Income: Cannot be used to qualify for cash-out refinance transactions. - Also see <i>Debt-to-Income Ratios</i> and <i>Tax Transcripts and 4506-T</i> in this program guide. Wage Earner Income Employment Gaps: No explanation required for gaps of less than 6 months, <i>Addressing Gaps in Employment, II.A.4.b.xi.(B) Manual</i> Employment Verification: Obtain most recent 30 day's pay stubs showing YTD earnings (if paid weekly or bi-weekly, must cover a minimum of 28 consecutive days) AND either a VOE covering 2 years, or an electronic verification, Or obtain paystubs, 2 years W-2's and a verbal VOE, <i>Employment Related Income, II.A.5.b.ii (Manual)</i>. Employment Re-Verification: Must be completed w/in 10 days prior to Note date. Verbal re-verification is acceptable, <i>Traditional Current Employment Verification, II.A.5.b.ii.(1)(Manual)</i> Expected/Projected Income: For expected raises (such as cost-of-living increases), new jobs or retirement income that will be received within 60 Days of mortgage closing; document existence and amount with employer in writing. Must state income is guaranteed to begin w/in 60 days of Loan closing. Borrower must have sufficient income or cash reserves to support all obligations until income begins, <i>Expected Income, II.A.5.b.xii.(L) (Manual)</i>. Frequent Changes in Employment, Stability of Employment Income: If the Borrower has changed employers more than 3 times in the prior 12 months, or has changed lines of work, obtain transcripts for training or education showing qualification for new position, or employment documentation evidencing continuing increases in income and/or benefits, unless field of employment regularly requires borrowers to work for various employers (e. g. temp company or union trades), <i>II.A.4.c.xi.(A) Frequent Changes in Employment, (TOTAL), II.A.5.b.xi.(A)(Manual)</i>. Hourly Earnings Calculation: If hours do not vary, use hourly rate. If hours vary use a 2 year average. If hours vary and there is documented increase in pay rate, use 12 month average of hours at current pay rate, <i>Primary Employment, Hourly II.A.5.b.iii.(C)(Manual)</i>. Overtime and Bonus Income Calculation: General rule: Must have been received for 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. To calculate: 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, <i>II.A.5.b.v. (Manual)</i>. Part-Time Employment Income: 2 years of uninterrupted part-time employment are required. Average the income over prior 2 years, or use a 12-month average at current pay rate if there is a documented increase in pay rate. <i>Part-time Employment, II.A.5.b.v.(Manual)</i> Temporary Income Reduction: For borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, consider the Borrower's current income as Effective Income, if it can be documented and verified that the Borrower: intends to return to work; has the right to return to work; and qualifies for the mortgage taking into account any reduction of income due to the circumstance. For Borrowers returning to work before or at the time of the first Mortgage Payment due date, U/W's may use the Borrower's pre-leave income. For Borrowers returning to work after the first Mortgage Payment due date, the U/W 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, <i>Addressing Temporary Reduction in Income, II.A.5.b.ix.(C)(Manual)</i> VA Disability: Obtain a copy of the last benefits letter. If the letter does not have a defined expiration date, lender may consider the income effective and reasonably like to continue for at least 3 years, <i>4000.1 II.A.4.c.xii.(A).(2).(b), II.A.5.B.xii.(A).(2).(b) (March 14, 2016, Replaces ML 15-76)</i>. Self-Employment and Commission Income Federal tax returns must be obtained in accordance with FHA guidelines. FHA requires two years of signed, complete, individual tax returns (or transcripts) for self-employed and commissioned Borrowers <i>II.A.4.c.x.(C)(1) Individual and Business Tax Returns (TOTAL), II.A.5.b.x.(C)(1)(Manual)</i> Business Tax Returns: The borrower's business tax returns for the most recent 2 years must also be obtained unless the following criteria are met: Individual federal income tax returns show increasing self-employment income over the past 2 years; funds to close are not coming from business accounts; and the mortgage to be insured is not a cash-out refinance. Commission Income: Must have been earned for at least 1 year in same or similar line of work and likely to continue. Calculate by subtracting unreimbursed expenses from lesser of: average net commission earned over past 2 years (or however long it's been earned) or the average income earned of the prior 1 year. Greater than 25% requires tax returns, <i>II.A.4.c.ix.Commission Income (TOTAL), II.A.5.b.ix (Manual)</i>. Self-Employment Declining Income: Loan must be downgraded to manual underwriting and additional requirements apply if the income from a business has declined by more than 20% over the analysis period, unless: The reduction was the result of documented extenuating circumstances, or income has been stable or increasing for at least 12 months, or borrower qualifies using the reduced income, <i>II.A.4.c.x.(B)Stability of Self-Employment Income, II.A.5.b.X.(B)(Manual)</i> P & L, Balance Sheet: Obtain an YTD P & L and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed. Balance sheet is not required for Schedule C. If income used to qualify the borrower exceeds the 2 year tax return average, audited P & L or quarterly tax returns must be provided. <i>II.A.4.x.c.(C)Profit and Loss Statements and Balance Sheets (TOTAL), II.A.5.b.X.(C) (Manual)</i>. Tax Return Analysis: <i>Instruction for IRS form analysis is located in 4000.1 Appendix 2.0 – Analyzing IRS Forms</i> Other Income <u>MCC's may not be used as qualifying income.</u> Military Income: A copy of the borrower's Military Leave and Earnings Statement is required. Non-Taxable Income: Gross up using greater of 15% or actual tax rate. If borrower did not file a return use tax rate of 15%, <i>Non-Taxable Income, II.A.5.b.xii.(P) (Manual)</i>. Pension, IRA and 401k Income Calculation: Use current amount if consistent. For IRA and 401(k), fluctuating amounts require use of 2 year (or time of receipt if less) average, <i>Pension, II.A.5.b.xii.(H)(2-3)(Manual)</i>. Rental Income - For rental income calculations and history of rental income, follow FHA guidelines, <i>II.A.4. c. xii.(A).(I). Rental Income</i> Section 8 Homeownership Vouchers: Are not eligible for Loans delivered to Lender. Alimony, Child Support and Maintenance Income: If using voluntary payment agreement: obtain 12 months cancelled checks, deposit slips or tax returns. If there is evidence of receipt for most recent 6 months, may use the current payment to calculate income. If there are not 6 months of consistent payments, may average income received over prior 2 years, or less if the income has not been received that long, <i>Alimony, Child Support, and Maintenance Income, II.A.5.b.xii.(B)(Manual)</i>. - Also see <i>Debt-to-Income Ratios</i> and <i>Tax Transcripts and 4506-T</i> in this program guide.
Leasehold Estates 10.8. Leasehold Estates	Leasehold Estates: Not allowed

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LTV/CLTV	- FHA has no LTV/CLTV maximums for this program and Lender does not impose an overlay. - For the purposes of calculating the MIP, FHA uses the original value of the Property to calculate LTV. - Original value may be used to indicate LTV/CLTV for purposes of providing sufficient data points for Loan delivery to Lender.
Mortgage Insurance Premiums 5.19.11. FHA Insurance	Mortgage Insurance Premium (MIP) Levels - MIP levels are published in <i>4000.1 Appendix 1.0 Mortgage Insurance Premiums</i>. Monthly Collection and Payment of Annual MIP - FHA requires that an escrow account must be established at loan closing, including escrows for the monthly payments of Annual MIP, <i>II.A.6.viii. (A)</i>.
Mortgage Payment History 5/13/2016	Non Credit Qualifying: - Acceptable mortgage payment history” means, <i>II.A.8.d.vi.(C).(2).(b).(i), 3/14/2016</i>: - The Borrower must have made all Mortgage Payments for all Mortgages on the subject Property within the month due for the six months prior to case number assignment, and - Have no more than one 30-Day late payment for the previous six months for all Mortgages on the subject Property. - The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to mortgage Disbursement Credit Qualifying: - Acceptable mortgage payment history” means, <i>II.A.8.d.vi.(C).(2).(b).(i), 3/14/2016</i>: - The Borrower must have made all Mortgage Payments for all Mortgages on the subject Property within the month due for the six months prior to case number assignment. - The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to mortgage Disbursement. - For all Mortgages on all other Properties, the Borrower must have no more than one 30-Day late payment for the previous six months. Documentation: If the mortgage on the subject Property is not reported in the Borrower’s credit report, the Mortgagee must obtain a verification of Mortgage to evidence payment history for the previous 12 months. - Also see <i>Seasoning and Credit History</i>.
Net Tangible Benefit 5/13/2016	Net Tangible Benefit <i>II.A.8.d.vi.(C) (4)(c) Net Tangible Benefit for Streamline Refinances</i> - Net Tangible Benefit Is a reduced combined rate, a reduced term, and/or a change from an ARM to a fixed rate mortgage that results in a financial benefit to the borrower. “Combined rate” refers to the interest rate on the mortgage, plus the Mortgage Insurance Premium (MIP) rate. - The Lender must determine that there is a Net Tangible Benefit to the borrower as follows: Fixed Rate to– Fixed Rate - the new combined rate is at least 0.5 percentage points below the prior combined rate - One-Year ARM – the new combined rate is at least 2 percentage points below the prior combined rate - Hybrid ARM – The new combined rate is at least 2 percentage points below the prior combined rate - Any ARM with less than 15 months to next payment change date to - - Fixed Rate – New combined rate is no more than 2 percentage points above the prior combined rate - One Year ARM – New combined rate is at least 1 percentage point below the prior combined rate - Hybrid ARM – New combined rate is at least 1 percentage point below the prior combined rate - Any ARM with greater than or equal to 15 months to next payment change date to - - Fixed Rate – New combined rate is no more than 2 percentage points above the prior combined rate - One Year ARM – New combined rate is at least 2 percentage points below the prior combined rate - Hybrid ARM – New combined rate is at least 1 percentage point below the prior combined rate REDUCTION IN TERM – The net tangible benefit test is met if: the remaining amortization period of the existing mortgage is reduced; the new interest rate does not exceed the current interest rate; and the combined principal, interest and MIP payment of the new Mortgage does not exceed the combined principal, interest and MIP of the refinanced Mortgage by more than \$50, <i>II.A.8.d.vi.(C).(4).(c).(ii), 3/14/2016</i>.

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Non-Borrowing Spouse	Borrower’s Authorization must be obtained for non-borrowing spouse and non-borrowing spouse consent must be obtained for SSN verification with the Social Security Administration, <i>II.A.1.a.i.(A)(3) Signature Requirements, II.A.1.(B) Mortgage Application and Initial Supporting Documentation</i>, Title: The non-borrowing spouse is not required to be a Borrower or a Cosigner. However, if necessary to perfect a valid first lien under state law, FHA requires the non-borrowing spouse to execute the security instrument, <i>II.A.1.ii.(4) Borrower and Co-Borrower Ownership, II.A.1.(13)(a) Consent of Non-Borrower Spouses</i>. Credit Qualifying: - If a non-borrowing spouse resides in a community property state, OR if the property being insured is located in a community property state, then, unless excluded by state law: Credit report must be obtained for the non-borrowing spouse, <i>II.A.4.b.i General Credit Requirements (TOTAL), II.A.5.(a) (Manual)</i>, and - The credit report must indicate that the non-borrowing spouse’s SSN was matched with the SSA, or provide separate documentation of such. Debt of the non-borrowing spouse must be included on the URLA and considered in the DTI unless excluded by state law (the Seller must notate in the file the specific law), <i>Non-Borrowing Spouse Debt, II.A.5.iv.(E)(Manual)</i>. Credit history is not considered a reason to deny a mortgage application, <i>II.A.5.iii.(A)General Credit (Manual)</i>. Disputed derogatory credit is not included in the cumulative balance for determining downgrade to Refer, <i>II.A.5.iv.(K)(Manual)</i>. Judgements must be resolved or paid in full, <i>Judgements, II.A.5.iii.(G)(Manual)</i>. Collection Accounts must be included in the \$2,000 cumulative balance, <i>Collection Accounts II.6.A.iv.(N)(Manual)</i>.
Non-Credit Qualifying - Definition	<i>II.A.8.d.vi.(C) Streamline:</i> Non-Credit Qualifying Summary: - Borrowers are eligible for a Streamline Refinance without credit qualification if all borrowers on the existing Loan remain as borrowers on the new Loan. Exception: Borrowers may be removed from title and new mortgage in cases of divorce, legal separation and death when: - Divorce decree or legal separation agreement awarded the property and responsibility for payment to remaining borrower, if applicable, and - Remaining borrower can demonstrate that they have made the mortgage payments for a minimum of six months prior to case number assignment. - Loan must meet Mortgage Payment History and Asset requirements for the program, but is exempt from; credit history review, income and employment documentation, and debt-to-income ratio calculation. - RMCR or tri-merge credit report is not required, however: - Lender requires at least one credit score per borrower. See Credit Requirements. “Mortgage Only” credit report with scores is typically sufficient. - FHA requires 6 months seasoning for subject property mortgage being refinanced with no late mortgage payments in past 6 months, and no more than 1 X 30 in past 12 months. See Seasoning - No Appraisal, AVM or other valuation product is required.
Occupancy 5/13/2016 Clarification	- Streamline Refinances may be used for Principal Residences, <i>II.A.8.d.vi.(C)(a) Occupancy Requirements, II.A.1.b.iii.(B)</i> Second Homes and Investment (non-owner occupied) properties are not eligible for delivery to Lender in the Streamline Refinance program. Occupancy Documentation Requirements: - Lender must review the Borrower’s employment documentation or obtain utility bills to evidence that the Borrower currently occupies the property as their principal residence, or - If the Lender cannot obtain evidence that the Borrower occupies the Property as a principal residence, then FHA requires that the Loan must be processed as an investment property and the Loan is not eligible for delivery to Lender. - Note: FHA defines “owner-occupied” as “principal residence.” “Non-owner occupied” is used by FHA to refer to investment properties.
Power of Attorney 6.10. Power of Attorney 10/30/2015 Aligned with Seller Guide	- In certain situations, a specific, special, military, or limited Power of Attorney may be acceptable. - Use of Power of Attorneys is not allowed for transactions with any of the following characteristics (not all characteristics may be applicable to this program): Cash-out refinance; Non-owner occupied (investment) properties; title taken as trust; Texas (a)(6); identity of interest or non-arms-length transactions; non-occupant borrowers may not use a POA. - See <i>Seller Guide Section 6.10. Power of Attorney</i> for complete Lender requirements. - For FHA requirements, see FHA Handbook <i>II.A.1.a.i.(A)(3), III.A.6.a.xiii.(A)Use of Power of Attorney at Closing</i>.

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Product and Program Eligibility 7/29/2016	- The following FHA Streamline Product Types are not eligible for delivery to Lender: (See the <i>FHA Standard 4000.1 Program Guide</i> for a complete list of ineligible FHA products and programs) <u>Manufactured Home refinance</u> <u>PACE: Loans secured by properties with Property Assessed Clean Energy (PACE) obligations or PACE-like clean energy program assessments are not eligible</u> <u>Streamline Loans for Investment properties</u> <u>203(h) Disaster Victims</u> <u>203(k) Streamlined Rehabilitation Mortgages</u> <u>223(e) Economic Life</u> <u>255 HECM (Reverse Mortgage)</u> <u>235: Refinance or assumption of an existing Section 235 Mortgage Assistance Loan with an ongoing subsidy, II.A.8.d.i.(B)(5)Refinancing of an Existing Section 235 Mortgage</u> <u>248 Indian Lands (IL)</u> <u>EEM, EEH, Energy Efficient programs</u> <u>"Good Neighbor Next Door" Program</u> <u>Loans to Non-Profit Organizations</u> Ineligible Features: <u>Building on own land</u> <u>Construction-to-perm</u> <u>Easements and deed restrictions</u> <u>Loans with resale and deed restrictions</u> <u>Proposed or Under-Construction</u> <u>Loans to non-profit organizations</u>

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Property Eligibility 10.7. General Property Eligibility 7/29/2016	• Eligible Property Types: Lender purchases new (completed) and existing Single Family Residence, PUDs, Condominiums and 2-4 unit residences in this program. • Modular Homes: Are eligible. (Manufactured homes are not). Ineligible Property Types: • <u>Acreage greater than 15 acres (truncating acreage for appraisal purposes is not allowed)</u> • <u>Assisted living or board and care facilities</u> • Bed and breakfast (or tourist houses), boarding houses, commercial enterprises fraternity or sorority houses, or non-real property such as houseboats, mobile homes, private clubs • Ineligible condo projects, including condotels, motels or hotels (See <u>Condominiums</u>) • <u>Co-ops</u> • Condos not on FHA's Approved List • <u>Exotic or non-traditional types of structures such as dome homes or log homes</u> • <u>Hawaii properties in lava zones 1 and 2</u> • <u>Land Loans (unimproved properties or vacant land)</u> • <u>Manufactured homes (whether or not built to MHCSS standards), Manufactured condos (FHA MHCP program)</u> • <u>Native American Indian Trust Lands</u> • <u>Properties with Property Assessed Clean Energy (PACE) obligations or PACE-like clean energy program assessments are not eligible</u> • Private clubs • <u>Proposed, under construction</u> (Construction take-out financing is allowed on eligible property types if there is a new Loan with a new Note and new qualification, and the property is complete. See <u>Product and Program Eligibility</u>). • <u>Vacation Homes</u> • <u>Working farms or ranches</u> • <u>State and Geographic Restrictions apply</u>
Seasoning 5/13/2016	• FHA Connection will not assign a case number for a Streamline Refinance transaction until the full six month Loan seasoning period has elapsed, <i>II.A.8.d.iv.(C)(4)(a)</i> • On the date of the FHA case number assignment: ○ The borrower must have made at least six payments on the FHA-insured mortgage that is being refinanced; ○ At least six full months must have passed since the first payment due date of the mortgage that is being refinanced; ○ At least 210 days must have passed from the Closing Date of the mortgage that is being refinanced, <i>II.A.8.d.vi.(C).(4)(a)</i> 3/14/2016; and ○ If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption. • Also see <u>Mortgage Payment History</u>.
Subordinate (Secondary) Financing 10.4.7. Subordinate Financing	• Valid First Liens: The Loan purchased by Lender must be in first lien position. Any other financing for subject property must subordinate, <i>II.A.1.b.ii.(A)(13) Valid First Liens</i>. • New Secondary Financing: <i>II.A.8.d.vi.(C)(4)(k) Maximum CLTV Ratio and Subordinate Financing</i> ○ New subordinate financing is permitted for Streamline Refinance transactions only when the proceeds of the subordinate financing are used to: ▪ <u>Reduce the principal amount of the existing FHA-insured mortgage, or</u> ▪ <u>Finance the origination fees, other closing costs, or discount points associated with the refinance.</u> ○ Lender requires a copy of the Loan instrument for any new or subordinating financing to be in the Loan file. • Re-subordinating Secondary Financing: ○ Lender requires a certified copy of the subordination agreement or equivalent (requirements vary by property state) ○ The entire lien must subordinate. • Partial Claim Liens: If the financed property is subject to an unsatisfied partial claim lien (any portion of the lien remains open on the title policy), then the Loan is not eligible for sale to Lender. For more information on Partial Claim Liens, <i>ML 2013-16, Partial Claim FAQ</i>. • No Property Assessed Clean Energy (PACE) loans – applies to new or existing subordinate financing on purchase and refinance transactions
State and Geographic Restrictions 5.1.1. Quick Reference Guide	• Properties in the following states are eligible: ○ <u>California, Oregon, Washington, Arizona, Colorado</u> ○
Tax Returns, Tax Transcripts and 4506T 10.5.6. Tax Return Transcripts	• When income is considered in qualifying: ○ A signed 4506-T must be obtained as required by FHA guidelines, <i>II.A.1. A.(3)Tax Verification Form or Equivalent</i> ○ Lender requires Tax transcripts matching the income verified for each year's income documented in the Loan file if available from the IRS. ○ <u>If only W-2 income is considered in qualifying, and FHA does not require tax transcripts, then W-2 transcripts are acceptable to Lender, <i>Seller Guide 10.5.6.</i></u>

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Term /Amortization	• Maximum Loan amortization term is the <i>lesser of: II.A.8.d.(4)(i)Maximum Mortgage Amortization Period</i> ○ The remaining amortization period of the existing mortgage plus 12 years, or ○ 30 years. • Temporary interest rate buydowns are not permitted with refinance transactions, <i>II.A.8.d.iii Temporary Interest Rate Buydowns</i>.
Title Policy, Tax Payments 5.17.3. Tax Payments Due 5.19.13. Title Insurance	• A title commitment (title policy) insuring the lender in first lien position and applicable endorsements are required for all Loans, <i>II.A.1.iii.(A)(5) Ordering Title Commitments</i>. • Short form policy is acceptable on a refinance if provided through the original title company. • Sellers are responsible for all tax payments with economic loss dates or discount dates prior to purchase by Lender and/or 30 calendar days following purchase by Lender.
Trusts 10.6. Trust Eligibility	• Loans may not be in the name of a trust