FHA Lending Guide

Chapter 12 | Credit

This chapter details **Credit, Income and Asset** requirements for FHA loans and provides specific loan program and loan processing guidance. Refer to Chapter 12 Property and Appraisal Requirements for guidance related to appraisal and property analysis.

Cardinal Overlays to agency guidelines are highlighted in our signature *Riptide* color, and are also listed in the corresponding Retail or TPO Product Overlay Matrix available on the HUB.

Cardinal originates FHA loans; all FHA loans must be documented, processed, and closed in accordance with Cardinal and FHA's eligibility requirements. These guidelines are to be used in conjunction with the FHA guidelines as outlined in the HUD Handbook 4000.1, Mortgagee Letters, HUD Notices, Federal Register Updates, and the Cardinal Product Snapshots.

All loans must be submitted through TOTAL Scorecard, with the exception of FHA Streamline Refinances. Loans receiving a Refer may be manually underwritten; refer to the Manual Underwriting sections of this guide for requirements.

Ability to Repay

Cardinal will verify the borrower's income, employment, assets, credit, recurring expenses, and other aspects of the loan to ensure the borrower can repay the loan in accordance with FHA guidelines.

Borrower's Authorization for Verification Information

Borrower's Authorization

The borrower's authorization to verify the information needed to process the mortgage Application must be obtained. The Non-Borrowing Spouse's consent and authorization, where necessary, must be obtained to verify specific information required to process the mortgage Application, including the Non-Borrowing Spouse's consent to verify their SSN with the Social Security Administration (SSA).

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Required Documentation

For each individual, borrower authorization may be accomplished through a blanket authorization form.

HUD Form 92900-A Part II: Borrower Consent for Social Security Number Verification

The borrower's signature must be obtained on Part II of form HUD-92900-A to verify the borrower's SSN with the Social Security Administration (SSA).

Tax Verification - Form 4506-C

All borrowers must execute a 4506-C prior to loan approval.

FHA loans do not require W-2 or 1099 transcripts for:

- Wage-earner borrowers,
- Non-employed borrowers (e.g., fixed income documented with an award letter)

Handwritten income documentation will always require tax transcripts. Underwriters may request a tax transcript on any file at their discretion.

Tax transcripts are required to be obtained for all borrowers with income from:

- Borrowers with Partnership, Corporate, S Corporation and/or Limited Liability Company income require transcripts on both the borrower's personal Federal Tax returns and the borrower's business returns if the income is used to qualify,
- When rental Income is documented on the borrower's Schedule E of their personal tax returns,
- Family employment,
- Fixed income types such as disability, social security, retirement, child support, alimony, etc. when the 1040s are obtained in lieu of alternative documentation, e.g., award letter, 1099, bank statements, etc. for fixed income types such as disability, social security, retirement, child support, alimony, etc.,
- Non-taxable income that is being "grossed up" for qualifying purposes

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Refer to the Tax Documentation Policy located in Chapter 2 | Documentation Standards for additional guidance.

Documentation Requirements

Age of Documents

Refer to Chapter 2 Documentation Standards guidance related to age of credit, income and asset documentation.

Appraisal

The appraisal is valid for 180 days from the effective date of the appraisal for both new and existing construction.

Handling of Documents

Documents relating to the employment, income, assets, occupancy or credit of borrowers that have been handled by, or transmitted from or through the equipment of unknown parties, or interested parties will not be accepted. This includes third-party verifications which have been handled by, or transmitted from or through unknown parties, any interested party, or the borrower.

Refer to Chapter 2 Documentation Standards for additional guidance.

Information Sent Electronically

All documents received electronically must be authenticated by examining the source identifiers (e.g., the fax banner header or the sender's email address) or contacting the source of the document by telephone to verify the document's validity. The name and telephone number of the individual, with whom the documents' validity was verified, must be documented.

Information Obtained via Internet

The Mortgagee must authenticate documents obtained from an internet website and examine portions of printouts downloaded from the internet. Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document.

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Signature Requirements for all Application Forms

All borrowers must sign and date the initial and final Uniform Residential Loan Application (URLA). All borrowers must sign and date page two of the initial HUD-92900-A form, HUD/VA Addendum to the URLA, and sign and date the complete final HUD-92900-A form. The Application may not be signed by any party who will not be on the Mortgage Note.

The Application and HUD Addendum 92900A must be signed and dated by all borrowers prior to underwriting and for non qualifying streamlines, the income source must be provided (amount of income not required) in Section IV.

The initial 1003 must be signed by the borrower(s) prior to the loan being underwritten.

Case Number Assignment

For topics not addressed below, refer to the Octane FHA Tasks Job Aid.

Ordering Case Numbers

Use FHA Connection (FHAC) to order FHA Case Numbers.

In order to obtain a Case Number, the following must be provided:

- The Borrower's name, SSN, and date of birth;
- The subject property address; and
- Certify there is an active mortgage application for the subject borrower and property

It is not required to input appraiser information at the time the Case Number is ordered.

Automated Data Processing Codes

FHA Automated Data Processing (ADP) Codes are derived from the section of the National Housing Act under which the Mortgage is to be insured. The correct ADP code must be selected for each Mortgage in FHAC.

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Case Numbers on Sponsored Originations

Cardinal will not be able to order Case Numbers for sponsored originations unless their sponsored TPO has been registered in FHAC.

Holds Tracking

If FHAC detects that a Case Number currently exists for the property, a Case Number will not be assigned. Cardinal will receive notification that the Case Number assignment has been placed in Holds Tracking. The Holds Tracking screen must be reviewed to determine the necessary actions to obtain a Case Number.

Canceling and Reinstating Case Numbers

Note: Cardinal complies with all requirements for transfer of Case Numbers; for further instructions related to FHA Case Number Transfers please refer to Handling Outbound FHA Case Number and Appraisal Transfers.

Canceling a Case Number

A request for cancellation may be submitted to FHA at FHAC.

Automatic Case Number Cancellations

Case numbers without an appraisal logged are automatically cancelled after six months if one of the following actions is not performed as a Last Action Taken:

- Firm Commitment issued by FHA;
- Insurance application received and subsequent updates; or
- Notices of Return (NOR) or resubmissions

Cases with an appraisal logged are not subject to automatic cancellation for one year from the appraisal effective date.

Updates to the Borrower's name and/or property address, an appraisal update, or a transmission of the Upfront Mortgage Insurance Premium (UFMIP) do not constitute a Last Action Taken.

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Reinstatement of Case Numbers

- Reinstatement of canceled Case Numbers may be requested by submitting a request to FHAC.
- Case numbers that were automatically canceled will be reinstated only if evidence is provided that the subject Mortgage closed prior to cancellation of the Case Number, such as a Settlement Statement or Closing Disclosure or similar legal document

Transferring Case Numbers

Requirements for the Transferring Mortgagee

The original Mortgagee must assign the Case Number to the new Mortgagee using the Case Transfer function in FHAC immediately upon the Borrower's request.

The original Mortgagee may not charge the Borrower for the transfer of any documents, but the original Mortgagee may negotiate a fee with the new Mortgagee for providing the processing documents. The original Mortgagee is never entitled to a fee for the transfer of processing documents for a Streamline Refinance.

Case Number Transfer Involving a Sponsored Third-Party Originator

Where a case number is transferred to a new approved Mortgagee or sponsored TPO, the original Mortgagee, its authorized agent, or sponsored TPO that is also an FHA-approved Mortgagee, must complete the appropriate sections in FHAC as described in the FHAC Guide – Case Processing Support Functions.

Conflict of Interesta

The Mortgagee's employees will be subject to FHA's Conflict of Interest policy below.

This policy applies to all FHA-insured transactions unless otherwise specified in program requirements. Participants that have a direct impact on the mortgage approval decision are prohibited from having multiple roles or sources of compensation, either directly or indirectly, from a single FHA-insured transaction.

These participants are:

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- Underwriters
- Appraisers
- Inspectors
- Engineers

Indirect compensation includes any compensation resulting from the same FHA-insured transaction, other than for services performed in a direct role. Examples include, but are not limited to:

- Compensation resulting from an ownership interest in any other business that is a party to the same FHA-insured transaction; or
- Compensation earned by a spouse, domestic partner, or other Family Member that has a direct role in the same FHA-insured transaction

The Mortgagee must ensure that participants with a direct impact on the mortgage approval decision do not have multiple roles or sources of compensation from the same FHA-insured transaction.

Participants that do not have a direct impact on the mortgage approval decision may have multiple roles and/or sources of compensation for services actually performed and permitted by HUD, provided that the FHA-insured transaction complies with all applicable federal, state, and local laws, rules, and requirements.

A Loan Officer acting as the Real Estate Agent is strictly prohibited in Ohio and Utah, while other states will permit this relationship with specific disclosure requirements.

Refer to Chapter 2 Documentation Standards for additional guidance on Conflict of Interest transactions.

Mortgage Application Name Requirements Standard

All mortgage applications must be executed in the legal names of all Parties.

Required Documentation

The borrower's identity must be validated using valid government-issued photo identification prior to endorsement of the mortgage and a copy of the identification must be retained as documentation.

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Mortgage Insurance

Up Front Mortgage Insurance Premium (UFMIP)

Upfront Mortgage Insurance Premium (UFMIP)
All Mortgages: 175 Basis Points (bps) (1.75%) of the Base Loan Amount.
Exceptions: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA-endorsed Mortgage on or before May 31, 2009 • Hawaiian Home Lands (Section 247) • Indian Lands (Section 248)
Indian Lands (Section 248) do not require a UFMIP

Mortgage Insurance Premium (MIP)

Annual Mortgage Insurance Premium (MIP)			
Applies to all Mortgages except: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA endorsed Mortgage on or before May 31, 2009 • Hawaiian Home Lands (Section 247)			
Hawaiian Home Lands (Section 247) do not require Annual MIP			
Mortgage Term of More Than 15 Years			
Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**
Less than or equal to $726,200	≤ 90.00%	50	11 years
	> 90.00% but ≤ 95.00%	50	Mortgage Term
	> 95.00%	55	Mortgage Term
Greater than $726,200	≤ 90.00%	70	11 years
	> 90.00% but ≤ 95.00%	70	Mortgage Term
	> 95.00%	75	Mortgage Term
Mortgage Term of of Less than or Equal to 15 Years			
Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**

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Less than or equal to $726,200	≤ 90.00%	15	11 years
	> 90.00%	40	Mortgage Term
Greater than $726,200	≤ 78.00%	15	11 years
	> 78.00% but ≤ 90.00%	40	11 years
	> 90.00%	65	Mortgage Term

Policy on the Use of Electronic Signatures

Signatures Definition

An electronic signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the contract or record. Cardinal only accepts digital signatures.

Use of Electronic Signatures

An electronic signature conducted in accordance with the Electronic Signature Performance Standards (Performance Standards) is accepted on documents requiring signatures to be included in the Case Binder for mortgage insurance, unless otherwise prohibited by law. Electronic signatures meeting the Performance Standards are treated as equivalent to handwritten signatures.

Third-Party Documents

Third-party documents are those documents originated and signed outside of the control of Cardinal Financial, such as the Sales Contract. Cardinal will accept electronic signatures on Third-party documents included in the Case Binder for mortgage insurance endorsement in accordance with the E-Sign Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically and in a paper copy of the electronically signed document.

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Mortgage Application and Initial Supporting Documentation

URLA and HUD/VA Addendum to the URLA refer to both Initial and Final Applications. The borrower's Initial complete, signed URLA (Fannie Mae Form 1003/Freddie Mac Form 65) and page two of the HUD-92900-A form must be received before the mortgage Application can be underwritten.

Power of Attorney

Cardinal Financial will allow the use of a Power of Attorney ("POA") for the execution of final closing documents for certain loan products. All POA's require Advanced Approval from underwriting; underwriting will complete the POA checklist.

The closed loan file must retain a complete copy of all documents reviewed during the approval process. Upon review, the approval will be indicated within our system by designating the Power of Attorney Approval fields, which will be displayed for closing and underwriting. This request is made within our system and does not require the remittance of a support ticket. The process for ensuring the appropriate steps are taken and approval received are outlined here Power of Attorney Procedure.

Please see Power of Attorney Checklist for general, closing, and funding requirements.

Allowable Attorneys-in-Fact or Agents for POA

Except as otherwise required by applicable law, or unless they are the borrower's relative*, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:

- The broker/lender
- Any affiliate of the broker/lender
- Any employee of the broker/lender or any other affiliate of the broker/lender
- The loan originator
- The employer of the loan originator
- Any employee of the employer of the loan originator

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- The title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate
- Any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent

*Relative is defined as any of the following:

- Spouse or domestic partner of the Borrower
- Child, parent, or grandparent of the Borrower
  - A child is defined as a son, stepson, daughter, or stepdaughter
  - A parent or grandparent includes a stepparent/grandparent or foster parent/grandparent
- Legally adopted son or daughter of the Borrower
- Foster child of the Borrower
- Brother, stepbrother, sister or stepsister of the Borrower
- Uncle or aunt of the Borrower
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower

Title Requirements

- No changes to the property vesting may be made on a refinance transaction
- The title company must review the POA and issue the title policy with no exceptions pertaining to the POA
- The title company must record the original POA at the time of closing

Servicing Fees and Charges

Allowable Fees and Charges are those costs associated with the servicing of the Mortgage that are permitted to be charged to the Borrower.

Prohibited Fees and Charges are those costs associated with the servicing of the Mortgage that may not be charged to the Borrower.

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Reasonable and Customary Fees and Charges

The Mortgagee may collect certain fees and charges from the Borrower after the Mortgage is insured and as authorized by HUD. All fees must be:

- Reasonable and customary for the local jurisdiction;
- Based on actual cost of the work performed or actual out-of-pocket expenses and not a percentage of either the face amount or the unpaid principal balance of the Mortgage; and
- Within the maximum amount allowed by HUD(B) Prohibited Fees and Charges

The Mortgagee must not charge the Borrower for the following services:

- Costs of telephone calls, certified mail, arranging and conducting the Loss Mitigation Consultation, or other activities that are normally considered a part of a prudent Mortgagee's servicing activity;
- Preparing and providing evidence of Payoff, Reconveyance, or termination of the Mortgage;
- Providing information essential to the Payoff;
- Recording the Payoff of the Mortgage in states where recordation is the responsibility of the Mortgagee;
- Fees for services performed by attorneys or trustees who are salaried members of the Mortgagee's staff; or
- Mortgagee's use of an independent contractor, such as services related to the Loss Mitigation Consultation or a tax service, to furnish tax data and information necessary to pay property taxes or make the payments on behalf of the Mortgagee

Required Documentation

The Mortgagee must include in the Servicing File:

- Documentation of the amount of any fees and charges paid or payable by the Borrower; and
- Documentation supporting the actual cost of any work performed or out-of-pocket expenses

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Sales Contract and Supporting Documentation

Standard

The Mortgagee must not originate an insured Mortgage for the purchase of a Property if any provision of the sales contract violates FHA requirements.

All purchasers listed on the Sales Contract must be borrowers on the transaction and only borrowers can sign the Sales Contract. A Family Member of a purchaser, who is not a borrower, may be listed on the Sales Contract without modifications or removal.

An addendum or modification may be used to remove or correct any provisions of the Sales Contract that do not conform to these requirements.

The Mortgagee must obtain all signed copies of sales contract(s), including a complete copy of the final sales contract with any modifications or revisions agreed upon by Borrower and seller.

Amendatory Clause

If the borrower does not receive the HUD-92800.5B form, Conditional Commitment Direct Endorsement Statement of Appraised Value, before signing the sales contract, the sales contract must be amended before closing to include an amendatory clause that contains the following language:

"It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise, unless the purchaser has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement Underwriter setting forth the appraised value of the property of not less than $___________. The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value or condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable."*

The underwriter must ensure the actual dollar amount of the Sales Price stated in the Contract has been inserted in the Amendatory Clause unless the amendatory clause language is part of the contract. Any increases to the Sales Price after the sales contract or amendatory clause document is executed requires a revised Amendatory Clause specific to the new increased sales price. If the Sales Price decreases after the contract or amendatory clause disclosure is signed, no new Amendatory Clause Evidence of Compliance is required.

The Amendatory Clause is not required in connection with:

- HUD REO Sales,
- FHA's 203K mortgage program, or
- Sales in which the seller is:
    - Fannie Mae;
    - Freddie Mac;
    - U.S. Department of Veterans Affairs (VA);
    - United States Department of Agriculture (USDA) Rural Housing Services;
    - Other federal, state, and local government agencies;
    - Mortgagee disposing of REO assets
    - A Seller at a foreclosure sale

Real Estate Certification

The borrower, seller, and the real estate agent or broker involved in the sales transaction must certify, to the best of their knowledge and belief, that (1) the terms and conditions of the Sales Contract are true and (2) any other agreement entered into by any Parties in connection with the real estate transaction is part of, or attached to, the Sales Agreement.

A separate certification is not needed if the Sales Contract contains a statement that (1) there are no other agreements between Parties and the terms constitute the entire agreement between the Parties, and (2) all Parties are signatories to the Sales Contract submitted at the time of underwriting.

Property Assessed Clean Energy

Where the subject property is encumbered with a Property Assessed Clean Energy (PACE) obligation, the sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to closing.

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Statement of Appraised Value

The borrower must receive a copy of Form HUD-92800.5B. A statement of appraised value is not required in connection with:

- HUD REO sales,
- FHA's 203(k) mortgage program, or
- Sales in which the seller is:
  - Fannie Mae;
  - Freddie Mac;
  - VA;
  - USDA Rural Housing Services;
  - Other federal, state, and local government agencies;
  - An Underwriter disposing of REO assets; or
  - A seller at a foreclosure sale

Required Disclosures

The borrower must be provided with any disclosure required by FHA, including the following.

Informed Consumer Choice Disclosure

The borrower must be provided with an Informed Consumer Choice Disclosure in accordance with the requirements of 24 CFR § 203.10 if the borrower may qualify for similar non FHA-insured mortgage products offered by the Cardinal.

Form HUD-92900-B, Important Notice to Homebuyers

This form is no longer required for any cases not yet endorsed as of 11.19.25.

Lead-Based Paint

If the property was built before 1978, the seller must disclose any information known about lead-based paint and lead-based paint hazards before selling the house, in accordance with the HUD-EPA Lead Disclosure Rule (24 CFR 35, subpart A, and the identical 40 CFR 745, subpart F). For such properties, the mortgagee must ensure that:

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- The borrower has been provided the EPA-approved information pamphlet on identifying and controlling lead-based paint hazards (“Protect Your Family from Lead in Your Home”);
- The borrower was given a 10-Day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards, or waived the opportunity;
- The sales contract contains an attachment in the language of the contract (e.g., English, Spanish), signed and dated by both the seller and purchaser:
    - Containing a lead warning statement as set forth in 24 CFR § 35.92(a)(1).
    - Providing the seller’s disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence;
    - Listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and
    - Affirming that the borrower received the pamphlet, disclosure, and records or reports, above; and
- When any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller’s Lead Disclosure Rule obligations, the agent is aware of his/her duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

Form HUD-92564-CN, For Your Protection: Get a Home Inspection

Form HUD-92564-CN, For Your Protection: Get a Home Inspection, must be provided to prospective homebuyers at first contact, be it for pre-qualification, pre-approval, or initial application.

Programs

Cardinal offers the following FHA mortgage programs:

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- 203(b) (including condominiums)
- 203(k) - Rehabilitation loans
- 203(h) - Mortgage Insurance for Disaster Victims
- Fixed and Adjustable Rate Mortgages

The following transactions are eligible:

- Purchases
- Refinances
    - Cash-Out
    - Rate and Term
    - Credit Qualifying Streamline
    - Non-Credit Qualifying Streamline

The following products or transactions are ineligible:

- Energy Efficient Mortgage Products

Adjustable Rate Mortgage (ARM)

An Adjustable Rate Mortgage (ARM) refers to a Mortgage in which the interest rate can change annually based on an index plus a margin.

Temporary interest rate buydowns are not permitted with ARM transactions.

Required Disclosures

The Borrower must sign a disclosure that explains the terms of the ARM at mortgage application.

ADP Code

Case Number ADP code is 251.

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ARM Types

The Mortgagee must establish the initial interest rate and the margin. The margin must be constant for the entire term of the Mortgage.

The interest rate must remain constant for an initial period of 3 or 5 years, depending on the ARM program chosen by the Borrower, and then may change annually for the remainder of the mortgage term.

- 3 and 5-year ARMs may allow for increases of one percentage point annually, and five percentage points over the life of the Mortgage.

Initial Interest Rate Adjustments

The first interest rate adjustment must occur in accordance with the following chart:

If the ARM is initially at a fixed interest rate for ...	Then the first adjustment rate change may occur no sooner than ...	And no later than ...
3 Years	36 months	42 months
5 Years	60 months	66 months

Index

The interest rate governing index will be the 1-Year Constant Maturity Treasury (CMT), GNMA does not allow ARMs using the SOFR index.

The 1-Year CMT is the weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year, as published by the Board of Governors of the Federal Reserve System in its statistical release on Selected Interest Rates (H.15) at https://www.federalreserve.gov/releases/h15/default.htm.

Margin

2.00%

Qualifying Rate

The Mortgagee must underwrite the Mortgage based on payments calculated using the initial interest rate.

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Mortgage Term

The ARM must be fully amortizing over a period of no more than 30 years.

Required Documentation

Model Note

The Mortgagee must use the Model ARM Note for all ARMs. Paragraph 1 of this form must be adapted or additional paragraphs may be added to provide a full description of the adjustable rate feature of the Mortgage to the extent required by state or local law to create an enforceable agreement.

The Mortgagee must ensure that the ARM Note contains amortization provisions that allow for annual adjustments in the rate of interest charged.

Mortgage Document

The mortgage documents for an ARM must specify the:

- Initial interest rate;
- Margin;
- Date of the first adjustment to the interest rate; and
- Frequency of adjustments

Temporary Buydown

A temporary buydown allows borrowers to reduce their effective monthly payment for a limited period of time through a temporary buydown of the interest rate.

- The effective interest rate that a borrower pays during the early years of the mortgage is reduced as a result of the deposit of a lump sum of money (sometimes called a "subsidy") into a buydown account. A portion of the subsidy is released each month to reduce the borrower's payments.
- The buydown funds may be provided by various parties, including the borrower, the lender, the property seller, or other interested parties to the transaction.

General Requirements for Temporary Interest Rate Buydown Plans

- Buydown program is "3-2-1"
    - Interest rate for the first year is 3% lower than the Note rate
    - Interest rate for the second year is 2% lower than the Note rate
    - Interest rate for the third year is 1% lower than the Note rate

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    - Interest rate for the remaining years is the Note rate
- Buydown program is “2-1”
    - Interest rate for the first year is 2% lower than the Note rate
    - Interest rate for the second year is 1% lower than the Note rate
    - Interest rate for the remaining years is the Note rate
- Buydown program is “1-1”
    - Interest rate for the first year is 1% lower than the Note rate
    - Interest rate for the second year is 1% lower than the Note rate
    - Interest rate for the remaining years is the Note rate
- Buydown program is “1-0”
    - Interest rate for the first year is 1% lower than the Note rate
    - Interest rate for the remaining years is the Note rate
- The actual note rate and monthly payment that the borrower is obligated to pay is never actually reduced, and the full rate and payment must be reflected on the mortgage documents.
- At the end of the buydown period, the buydown funds collected at closing will have been exhausted, and the buydown period ends.
- Allowed on fixed-rate mortgages
- Purchase transaction only
- Ineligible for Manufactured Housing
- Rate increase will not exceed 1% per year
- The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan

Buydown Funds Provided by Interested Parties to the Transaction

- When the source of the buydown funds is an interested party, the Interest Party Contribution limits of 6% will apply

Lender-Funded Buydowns

- If the buydown is funded by the lender as part of the pricing on the loan, the buydown agreement must require that the funds in the buydown account be transferred to the new servicer if the mortgage is subsequently transferred.

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Buydown Agreements

- The buydown agreement must provide that the borrower is not relieved of his/her obligation to make the mortgage payments required by the terms of the Note
- The buydown agreement must not:
  - Permit reversion of undistributed escrow funds to the provider if the property is sold or the mortgage is prepaid in full; nor
  - Allow unexpended escrow funds to be provided to the borrower in cash, unless the borrower funds were used to establish the escrow account.

Qualifying the Borrower

- The borrower is qualified based on the Note rate without any consideration of the bought-down rate
  - The note rate will be used to determine the Self-Sufficiency Test
  - The note rate will be used to determine the Net Tangible Benefit requirements for FHA Transactions. (Note: Cardinal does not permit Temporary Buydowns on refinance transactions at this time)

Terms of the Buydown

- The buydown plan provides for increases of not more than 1% in the interest rate paid in each 12-month interval

Buydown Funds

- Funds for buydown accounts must be deposited into custodial bank accounts
- The buydown funds are applied toward payments as they come due under the Note
- If escrow payments are not received for any reason, the borrower is responsible for making the total payment as described in the mortgage note
- Buydown funds cannot be used to pay past-due payments

Borrower Eligibility

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- All borrowers must have a valid Social Security Number
    - Individuals employed by the World Bank, a foreign embassy or equivalent employer identified by HUD, state and local government agencies, Instrumentalities of Government, and HUD-approved Nonprofit organizations are not required to provide an SSN.
- Properties must be owner occupied with the exception of streamline refinances
- Cardinal limits the number of borrowers to four per loan transaction

Borrowers may be:

- U.S. Citizens
- Permanent Resident Aliens
- ~~Non-Permanent Resident Aliens~~

Borrower (Applicant) – Age Requirements

All borrowers must be legally capable of entering into a binding mortgage obligation. Accordingly, each borrower must be at least 18 years old, or the minimum age permitted under applicable state law to execute a Note, Mortgage, or Deed of Trust. There is no maximum age limit for a borrower.

Non-Applicant Title Holder – Age Requirements

Individuals who hold title to the property but are not borrowers are not subject to Cardinal's borrower eligibility requirements. Cardinal defers to applicable state law to determine whether a non-borrower title holder meets the legal age requirements to hold title. If a minor is identified as a title holder, Cardinal requires a statement (electronic or written) from the settlement agent confirming that the minor's ownership interest and age comply with state law.

Living Trust

The Mortgagee may originate a mortgage for a living trust for a property held by the living trust, provided the beneficiary of the living trust is a cosigner and will occupy the property as their principal

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residence, and the trust provides reasonable means to assure that the Mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the property.

The name of the living trust must appear on the security instrument, such as the mortgage, deed of trust, or security deed. The name of the individual borrower must appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other borrowers, if any, must also appear on the Note with the trust. The name of the individual borrower is not required to appear on the property deed or title. The Mortgagee must obtain a copy of the trust documentation.

Cardinal does not allow a borrower(s) to close in the name of a trust without prior approval from the Credit Management team, refer to the Compliance Loan Exception Policy for additional guidance on closing in a trust.

Permanent Resident Aliens

A Borrower with lawful permanent resident alien status may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

The mortgage file must include evidence of the permanent residency and indicate that the Borrower is a lawful permanent resident alien on the URLA. The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.

Refer to Chapter 2 | Documentation Standards | Lending Guide Citizenship Requirements for eligibility requirements.

Citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau

A Borrower with citizenship in the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

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Required Documentation

For Borrowers who are citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau, the mortgage file must include evidence of such citizenship.

Non-Permanent Resident

Per ML 2025-09, with Case Number Assignments dated on or after May 25, 2025 borrowers with a Non-Permanent Resident Alien designation will be considered ineligible.

Military Personnel

Borrowers who are military personnel, who cannot physically reside in the property because they are on Active Duty, are still considered owner occupants and are eligible for maximum financing if a Family Member of the borrower will occupy the subject property as their Principal Residence, or the borrower intends to occupy the subject property upon discharge from military service.

Required Documentation

- A copy of the borrower's military orders evidencing the borrower's Active Duty status
- Document that the borrower's duty station is more than 100 miles from the subject property
- Obtain the borrower's intent to occupy the subject property upon discharge from military service unless a family member will occupy the property at the time of closing

Co-Borrowers

Co-borrowers are permitted as either co-applicants or joint applicants. Co-borrowers may apply either jointly on the same loan application or as co-applicants on a separate application.

A joint application is when two applicants use the same application to state their income, assets and credit. To apply jointly:

- Co-borrowers must have the same current primary residence; and
- Co-borrowers must have some form of shared assets

Marital status is not a factor for determining whether borrowers may complete a joint application.

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If borrowers do not meet the above criteria they are considered co-applicants and would each submit an application to provide income, asset, and credit information.

A party who has a financial interest in the mortgage transaction, such as the seller, builder, or real estate agent, may not be a Co-Borrower. Exceptions may be granted when the party with the financial interest is a Family Member.

Non-Occupant Co-Borrowers

A Non-Occupant Borrower refers to a Borrower on a Mortgage securing a Property that is not occupied by any Borrower, or is not the Principal Residence. Their income, assets, liabilities, and credit are considered for the qualification of the mortgage.

Non-occupant co-borrower:

- Must have an ownership interest in the subject property, as indicated by the title
- Must sign the Note
- Have (or will have) joint liability for the note with the borrower(s); and
- Do not have an interest in the property sales transaction e.g. property seller, builder, or real estate broker
- Maximum LTV is 75%. The LTV can be increased to a maximum of 96.5% for a 1-unit residence if the non-occupant co-borrower is a qualifying Family Member and the transaction does not involve a family member selling to a family member who will be a non-occupying Co-Borrower.
    - When a non-occupant co-borrower is noted in Octane, an Affidavit of Non-Occupying Borrower document is required to certify the relationship
    - This form will automatically set in Octane when the non-occupant borrower is input
    - This form must be executed by the non-occupant borrower
- Non-occupying co-borrowers must be either U.S. citizens, or have a principal residence in the U.S.

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  - Principal residence refers to a dwelling where the borrower maintains or will maintain their permanent place of abode, and which the borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one principal residence at any one time.

- Income from a non-occupant co-borrower may not be considered in a cash-out refinance

Smart Document Reference 562.005 - Affidavit of Non-Occupying Borrower - FHA

Borrower(s) Without a Credit Score

- The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Mortgage. Non-occupant co-Borrower income may not be included.
- When a loan is manually downgraded and the occupant borrower does not have a credit score, the loan must be considered as a No Score loan when considering Compensating Factors, even if the non-occupant co-borrower has a usable credit score.

Ineligible Borrowers

- Co-Signers; all borrowers must be on title
- Non-Permanent Resident Aliens
- Persons with diplomatic immunity
- Borrowers who are delinquent on Federal Debt
- Borrowers on an exclusionary list

Delinquent Federal Non-Tax Debt

Borrowers with delinquent non-tax federal debt, including deficiencies and other debt associated with past FHA-insured mortgages, are not eligible for FHA financing.

Delinquent Federal Tax Debt

Borrowers with delinquent Federal Tax Debt are ineligible.

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Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. The Mortgagee must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

Refer to the Federal Debt section for additional guidance.

CAIVRS

Cardinal requires that a CAIVRS screening be performed and documented on each borrower and co-borrower.

Refer to the CAIVRS section within this document for additional guidance.

Excluded Parties

A borrower is not eligible for an FHA insured mortgage through Cardinal if they are suspended, debarred, or otherwise excluded from participating in HUD programs. All legal names and AKA's must be checked against the following:

- HUD Limited Denial of Participation (LDP) list
- System for Award Management (SAM)

If any other party to the transaction is listed on HUD's LDP list or in SAM as excluded from participation in HUD transactions, the loan is ineligible for financing. This may include, but is not limited to:

- Seller (except where selling the Principal Residence)
- Listing and Selling Real Estate Agent
- Loan Originator
- Loan Processor
- Underwriter

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- Appraiser
- 203(k) Consultant
- Closing Agent
- Title Company

Eligible Transactions

- Purchase
- Refinance
  - Cash-Out Refinance
    - Ineligible if the underlying lien is an FHA HECM reverse mortgage
  - Rate and Term Refinance
    - Includes Texas (a)(4) loans
    - Includes an underlying HECM Reverse mortgage if TOTAL Scorecard Approved
    - Ineligible if underlying HECM Reverse mortgage and either TOTAL Scorecard Refer or Manually Downgraded
  - Streamline Refinance (Credit-Qualifying and Non-credit Qualifying) may be Principal, Second Home, or Investment Property

Land Contract

A land contract, contract for deed, agreement for deed, installment contract, or installment sale agreement is a contract between the buyer and seller of real property where the seller provides the buyer with owner financing, and the buyer repays the seller. With a land contract, the seller retains the legal title to the property, while permitting the buyer to take possession of the home for legal purposes.

Unrecorded Land Contract

Properties to be acquired through an unrecorded land contract must be treated as a purchase.

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Recorded Land Contract

When the purpose of the new mortgage is to pay off an outstanding recorded land contract, the transaction is treated as a Rate and Term Refinance. The unpaid principal balance shall be deemed to be the outstanding balance on the recorded land contract.

The loan contract, or equivalent document, must:

- Be recorded on or before the Case Number Assignment date, and
- Be reflected on the preliminary title report, and
- Contain a contract sales price which will be used as the acquisition cost
- Note: The property acquisition date is the recorded date of the land contract. Although some states recognize equitable ownership as of the date of the agreement, FHA does not accept this date as the date of acquisition for the purposes of establishing the permissible acquisition cost calculations

For FHA One Close Transactions involving a land contract, the requirements for establishing the acquisition cost outlined in Chapter 25 | Construction | Lending Guide apply. The date of acquisition will be the recorded date of the land contract and the cost of the land in the land contract will be used in the calculation for establishing acquisition cost.

Ineligible Transactions

- Texas Section 50(a)(6) loan
- Cash Out Refinance of an underlying FHA HECM Reverse Mortgage
- Rate/Term Refinance of an underlying FHA HECM Reverse Mortgage if TOTAL Scorecard Refer or Manual Downgrade

Maximum Mortgage Amounts

A Mortgage that is to be insured by FHA cannot exceed the Nationwide Mortgage Limits.

Under most programs, the maximum Mortgage is the lesser of the Nationwide Mortgage Limit for the area, or a percentage of the Adjusted Value.

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Adjusted Value

For purchase transactions, the Adjusted Value is the lesser of:

- Purchase price less any inducements to purchase; or
- The Property Value

For refinance transactions, the Adjusted Value is:

- For properties acquired by the Borrower within 12 months of the Case Number assignment date, the Adjusted Value is the lesser of:
  - The borrower's purchase price, plus any documented improvements made subsequent to the purchase; or
  - The Property Value
- Properties acquired by the Borrower within 12 months of Case Number assignment by inheritance, through a Gift from a Family Member, or through a non-monetary transaction, may utilize the calculation of Adjusted Value for properties purchased 12 months or greater.
- For properties acquired by the Borrower greater than or equal to 12 months prior to the Case Number assignment date, the Adjusted Value is the Property Value.

Occupancy

Cardinal only allows financing for FHA insured mortgages on primary residences, unless the subject transaction is an FHA streamline.

A Primary Residence is a property where the borrower maintains or will maintain their permanent place of living, and which the borrower occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any time.

At least one borrower must occupy the property within 60 days of signing the Security Instrument and intend to continue occupancy for at least one year.

FHA will not insure more than one property as a Primary Residence for any borrower, except as noted as an Allowable Exception below. Cardinal will not allow FHA financing as a vehicle for obtaining investment properties, even if the property to be insured will be the only one owned using FHA

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mortgage Insurance. Properties previously acquired as Investment Properties are not subject to these restrictions.

Allowable Exceptions

Cardinal may permit a borrower with an existing FHA-insured mortgage to obtain an additional FHA mortgage on an exception basis, as outlined below. All exceptions require complete file documentation of the exception request and the DE underwriter recommendation for approval. The DE Underwriter will provide complete notes in the file outlining the reasons for the allowed exception.

Relocation

A borrower may be eligible to obtain another FHA-insured mortgage without being required to sell an existing property covered by an FHA-insured mortgage if all of the following requirements are met:

- The borrower has relocated for employment-related reasons since they last obtained an FHA loan, or will be relocating for employment-related reasons within 60 days of the new FHA transaction
    - For a future relocation, or for a relocation that has already occurred, a signed letter of explanation from the borrower's previous, current or prospective employer outlining the details of the relocation must be obtained. The letter must include the effective date and terms of relocation and any changes to job title or compensation (relocating to retire does not meet this requirement)
- Establish date of existing FHA mortgage acquisition date through FHA Case Query. The date the existing FHA loan is closed becomes the date that borrower relocation changes are evaluated from
- Establish the new Principal Residence is located in an area more than 100 miles from the Borrower's current Principal Residence (i.e. the residence that is currently insured by FHA which may not be the borrower's current residence today). This can be done by performing an online search using tools such as MapQuest or Google Maps validating the distance between the two properties

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- If the borrower subsequently returns to the area where he/she owns a property with an FHA-insured mortgage, his/she is not required to re-establish primary residence in that property in order to be eligible for another FHA-insured mortgage on a new principal residence provided the criteria indicated in the above bullet points has been met

Increase in Family Size

A borrower may be eligible to obtain another house using a FHA-insured mortgage if satisfactory evidence is provided to support:

- The borrower has had an increase in legal dependents since they acquired the home with the existing FHA mortgage, and
- The property with the FHA mortgage now fails to meet the family needs, and
- The Loan to Value on the property with the FHA mortgage is 75% or less, based on the outstanding mortgage balance and a current appraisal. If the equity position is not supported, the borrower must pay the existing FHA loan down to 75% or less using acceptable funds in accordance with this policy

In addition to the above, the following requirements must be met:

- Establish the acquisition date of the existing property with the FHA mortgage through a property profile, deed or other ownership documentation. The documented acquisition date becomes the date that family size changes are evaluated from.
- Establish the number of legal dependents that were born or legally adopted since the acquisition date of the existing FHA mortgage using one of the following documents:
  - Birth certificate for one or more child/children born between property acquisition date and subject property application date, or
  - Adoption documentation for one or more child/children born between the property acquisition date and subject property application date.
- Obtain a signed letter of explanation from the borrower stating how or why their current property, which is encumbered by an FHA mortgage, no longer meets the family's needs. The

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letter should specifically address any changes in family size and explain how the home is now failing to accommodate those needs.

- The loan-to-value (LTV) ratio on the current FHA mortgage encumbered property must be equal to or less than 75% based on the outstanding mortgage balance and a current residential appraisal using one of the below forms dated within 120 days of the subject loan application date.
    - A full Conventional Appraisal Report using Appraisal Form 1004 (SFR), 1073 (Condo), 1025 (2-4 Unit), or 1004C (Manufactured Home) is required depending on the property type
    - Exterior-Only or Drive-by appraisals are not acceptable

Divorce or Vacating a Jointly Owned Property

A borrower may be eligible for another FHA-insured mortgage if the borrower is vacating (with no intent to return to) the Principal Residence which will remain occupied by an existing Co-borrower if the borrower provides the following:

- Establish date of existing FHA mortgage acquisition date through FHA Case Query, the date the existing FHA mortgage is closed becomes the date that property ownership and occupancy changes are evaluated from.
- Obtain a signed letter of explanation affirming existing property encumbered by FHA mortgage was vacated or will be vacated and due to what family or personal changes and specifically affirms they have no intent to return to residing at the property
- Obtain separation or divorce decree or other legal agreement outlining the details regarding the property ownership changes or agreement outlining the existing property disposition.

Example: A couple is divorcing, and the vacating ex-spouse will purchase another home.

Non-Occupying Co-Borrower

A non-occupying Co-borrower on an existing FHA-insured mortgage may qualify for an FHA-insured mortgage on a new property to be their Principal Residence. Note: A borrower with an existing

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FHA-insured mortgage on their own principal residence may qualify as a non-occupying co-borrower on other FHA-insured mortgages.

- Establish the role of the non-occupying co-borrower on the existing FHA mortgage by obtaining the note, mortgage, or deed of trust to validating the borrower acted as a non-occupying co-signer,
- Validate that the existing FHA loan belonging to the non-occupying co-borrower is encumbering their primary residence.

An individual can be a non-occupying co-borrower on as many FHA loans as they qualify for.

203(h) Loan Programs

Ineligible Occupancy Types

- Second Home
- Investment Properties

  Note: Streamline Refinances are eligible

- Loans that would constitute the 7th property owned within a two block radius

FHA 7-Unit Limitation

HUD prohibits FHA financing on a property that may be rented and is part of, adjacent to, or contiguous to property, subdivision, or group of properties that the borrower has/will have a financial interest in which will total more than seven (7) dwellings units (regardless of financing type) within a two block radius. The limitation counts detached/attached properties as well as each dwelling unit in a multi-unit owned by the borrower, including the rental units in an owner-occupied multi-unit.

If the borrower owns six (6) properties, Cardinal requires the DE underwriter to map the properties owned by the borrower to document that the HUD limitation is not exceeded.

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Owner of Record

To be eligible for an FHA insured mortgage, a property must be purchased from the Owner of Record. The transaction may not involve any sale or assignment of the Sales Contract. All FHA transactions require a 12 month chain of title search from the title company.

Documentation verifying that the seller is the owner of record must be obtained. Such documentation may include, but is not limited to:

- A property sales history report
- A copy of the recorded mortgage Deed from the Seller
- Other documentation, such as a copy of the property tax bill, Title Commitment, or binder, demonstrating the Seller's ownership of the property and the date it was acquired.

Under no circumstances may an individual who is not the owner of public record act as the seller of the subject property.

Properties Listed for Sale

- Properties listed for sale within the most recent six months are permitted if the listing has been canceled at least one day prior to the TRID Application date. A copy of the canceled/expired listing should be included in the loan file.
- Borrower(s) must certify intent to continue to reside in the subject property as a Principal Residence.

Property Flipping

The eligibility of a property for a mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the property and the date of execution of the sales contract that will result in the FHA insured mortgage.

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- FHA defines the seller's date of acquisition as the date the seller acquired legal ownership of that property. **Note**: the date of the deed is considered the acquisition date, not the date of recording.
- FHA defines the resale date as the date of execution of the sales contract by all parties intending to finance the property with an FHA insured mortgage.

There are occasions in which the initial sales contract is canceled and a new fully executed contract is provided that is now dated greater than 90 days from the seller's date of acquisition. In these cases, the loan file must contain the following documentation:

- Initial sales contract along with an addendum showing it canceled or withdrawn; and
- New fully executed sales contract
- The FHA Case Number Assignment does not need to be canceled even if pulled prior to the new sales contract, but the Appraisal Logging must be revised to show the new contract date. A Case Query should then be pulled that will remove the warning for property flipping.
- The appraisal report does not need to be revised to show the new sales contract date if the effective date was prior to the new contract date.

Land Contract

The seller of property acquired through a Land Contract must be the vested owner on title; to be eligible for a mortgage insured by FHA, a Property must be purchased from the owner of record. The transaction may not involve any sale or assignment of the sales contract.

Any vesting changes are subject to FHA's Property Flipping requirements.

Restrictions on Resales Occurring 90 Days or Fewer After Acquisition

A property that is being resold 90 days or fewer following the Seller's date of acquisition is not eligible for FHA insured mortgage.

Restrictions on Resales Occurring Between 91 Days and 180 Days After Acquisition

A second appraisal is required by another Appraiser if:

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- The resale date of a property is between 91 and 180 days following the acquisition of the property by the seller; and
- The resale price is 100 percent or more over the price paid by the seller to acquire the property.

If the second appraisal supports a value of the property that is higher than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower.

- Note: When the second appraisal report (defined as the appraisal completed on a date greater than or equal to the first appraisal date) effective value is higher than the first appraisal report, the higher value is prohibited from being used to determine the property value.

If the second appraisal supports a value of the property that is more than 5 percent (5%) lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower. The cost of the second appraisal may not be charged to the borrower.

If the second appraisal supports a value of the property that is less than 5 percent (5%) lower than the value of the first appraisal, the higher value of the first appraisal may be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower.

Refer to Property Flipping for additional information.

Exceptions to Time Restrictions on Resale

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee
- Resales by HUD under its REO program
- Sales of properties by nonprofits approved to purchase HUD owned Single Family Properties at a discount with resale restrictions
- Sales by other US government agencies of Single Family Properties pursuant to programs operated by these agencies

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- 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 (GSE)
- Sales of properties by local and state government agencies
- Sales of properties within declared disaster areas, only upon issuance of the notice of an exception from HUD
- Partial continuity of ownership
    - A quit claim deed transaction is not considered a sale and is not subject to the rules prohibiting property flipping as long as at least one of the original owners retains an ownership interest in the property after the quit claim deed is recorded.
    - Transfer of ownership from the seller to an LLC, or from an LLC to the seller when the seller is 100% owner of the LLC is permissible and is not subject to the rules prohibiting property flipping. If the seller is not 100% owner of the LLC, the transaction is subject to the Property Flipping guidelines as noted above.

The restrictions listed above do not apply to a builder selling a newly built house or building a house for a borrower planning to use FHA insured financing.

Property

Eligible Property Types

- Attached/detached SFRs
- Attached/detached PUDs
- FHA-approved Condos
- 2–4 Units
- HUD-owned properties underwritten to HUD guidelines

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- Manufactured Housing
    - Cardinal will lend on manufactured homes (double-wide or single-wide) on all transaction types.

Refer to the applicable Product Snapshot and Lending Guide Chapter 12 Property and Appraisal Requirements for all property related guidance, including Ineligible Property Types.

Additional Property Considerations

Tax Exemptions and Abatements

Tax exemptions, or abatements, are a temporary reduction in the actual amount of taxes that the owner(s) of a property must pay. In order for the reduced amount to be used for qualifying purposes, the abatement, homestead or exemption must remain in place for a minimum of three (3) after closing. If the Underwriter has knowledge that a "Homestead" or other type of classification is considered permanent, the time period does not need to be documented and the underwriting commentary on the transmittal form can indicate the details of the exemption. Documentation supporting the amount and term of the abatement must be in the loan file.

When the subject property is not currently owner-occupied, but it is verified that it will be when the mortgage transaction is complete, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

The tax abatement or exemption must be from a governmental authority and not paid by the seller or by any other interested party.

Exemptions for Seniors, Veterans, Disabled Veterans, or Others

Borrowers purchasing primary residences who are eligible for reduced property taxes such as senior exemptions or exemptions for veterans in a certain state or municipality may be qualified at the reduced property tax amount if the title company can reliably calculate the taxes and the borrower furnishes a copy of the application (if needed) for the program.

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The real estate taxes for the subject property must be escrowed unless prohibited by state law. The borrower must be informed that if the exemption is not approved, then the escrow account will be adjusted accordingly.

Florida Homestead Exemption

When the subject property is not currently owner-occupied, but it is verified that it will become owner-occupied when the mortgage transaction is completed in conjunction with a primary residence purchase transaction, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

With a Florida Homestead Exemption, the first $25,000 in property value is exempt from all property taxes, including school district taxes. The following requirements apply:

- The homestead property must be the permanent residence, and the property is owned on January 1 of the tax year,
- The application deadline for all exemptions is March 1,
- An additional exemption of up to $25,000 (or up to a maximum exemption of $50,000) will be applied if the property's assessed value is between at least $50,000 and $75,000. However, the exemption is not applied to school district taxes.

Texas Basic Homestead Exemption

When the subject property is not currently owner-occupied, but it is verified that it will become owner-occupied when the mortgage transaction is completed in conjunction with a primary residence purchase transaction, the verified amount of homestead property taxes may be used in qualification.

This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied. Proof that the borrower is filing the property as their homestead is required at closing. The underwriter may use the homestead exemption property tax amount in calculating the borrower's PITIA if verification of the proposed amount is received from the title company.

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Homestead exemptions in Texas are entitled to a $3,000 exemption from county taxes and $15,000 from school taxes. The following requirements apply:

- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.

Texas Age 65 or Older or Disabled Exemption

Texas law requires school districts to offer additional homestead exemptions to persons age 65 or older or disabled. When the subject property is not currently owned by someone 65 years of age or older or that has documented their disabled status, but it is verified that the borrower on the new mortgage transaction will meet these criteria upon the successful closing of the purchase transaction, the verified amount of the proposed Age 65 or older or disabled homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the exemption has been applied. The following requirements apply:

- To qualify for the exemption for persons age 65 or older, the owner must be age 65 or older and live in the property. If the age 65 or older homeowner dies, the surviving spouse may continue to receive the local option exemption if the surviving spouse is age 55 or older at the time of death and lives in and owns the home and applies for the exemption.
- A disabled person must meet the definition of disabled for the purpose of payment of disability insurance benefits under the Federal Old-Age, Survivors and Disability Insurance Act.
- The homeowner does not have to meet the definition of disabled or age 65 or older on Jan. 1 of the tax year but may qualify as disabled or age 65 or older at any time during the tax year.
- An exemption applies to the entire tax year as if the person was disabled or age 65 on Jan. 1.
- Collect any required proration from Seller as exemption would not apply during the time Seller owned the property.

Texas Veterans Exemptions

Texas law provides partial exemptions for any property owned by disabled veterans and surviving spouses and children of deceased, disabled veterans. It also provides a partial exemption for residence

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homesteads donated at no cost or not more than 50 percent of the good faith estimate of its market value to disabled veterans by charitable organizations that extend to surviving spouses who have not remarried. When the subject property is not currently owned by a disabled veteran that has verified their status, but it is verified that the borrower on the new mortgage transaction will meet these criteria upon the successful closing of the purchase transaction, the verified amount of the proposed exemption may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the exemption has been applied. The following requirements apply:

- The amount of exemption is determined according to the percentage of service-connected disability.
- A surviving spouse of a member of the U.S. armed services killed in action is allowed a total property tax exemption on their residence homestead if the surviving spouse has not remarried since the death of the member of the armed services.
- A disabled veteran who receives 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or individual unemployability from the United States Department of Veterans Affairs is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.
- Exemptions are applied after Jan. 1 of a tax year, and the exemption is applied for the balance of the year upon immediate qualification.
- Exemptions are removed after Jan. 1 of a tax year, and the exemption is removed for the balance of the year, and the higher tax rate must be evaluated.
- Collect any required proration from Seller as exemption would not apply during the time Seller owned the property.

HERO Lien Payoff - Reduction in Property Taxes

HERO (Home Energy Renovation Opportunity) loan programs provide financing for energy improvements made to your house where repayments are paid through property taxes on the home.

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These loans are most prevalent in California. HERO loans cannot be subordinated and must be paid off on any Cardinal refinance transaction.

Since the HERO loan will no longer be in place, the payments will no longer be funneling through the property taxes and will be reduced upon the next tax assessment. If the taxing authority can provide the exact new tax amount reduction after the HERO loan pays off, this amount can be used in the housing payment calculation and resulting DTI. However, if clear documentation cannot be provided, the current property tax amount must be used in our loan calculations.

Special Airport Hazards

If a Property is Existing Construction and is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must obtain a Borrower's acknowledgement of the hazard.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines

Assets

Borrower(s) must have sufficient assets to meet the down payment, closing costs not financed into the loan, and the difference between the purchase and sales price (if higher), and cash reserves.

For both Accept and Manually underwritten loans, obtain a statement showing the previous month's ending balance for the most recent month. If the previous month's balance is not shown, the Mortgagee must obtain statement(s) for the most recent two months. Please note, a Verification of Deposit may not be used to qualify assets.

Minimum Required Investment (MRI)

Minimum Required Investment refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the Property.

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The Mortgagee may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from:

- The seller of the Property;
- Any other person or Entity who financially benefits from the transaction (directly or indirectly); or
- Anyone who is or will be reimbursed, directly or indirectly, by any party as described above

Closing costs, prepaid items, and other fees may not be applied towards the borrower's minimum required investment (MRI).

The refund of the Borrower's POC items may be used toward the Borrower's minimum required investment if the Mortgagee can document that the POC items were paid with the Borrower's own funds from an acceptable source.

Charges Paid Outside of Closing

The refund of the Borrower's POC items may be used toward the Borrower's minimum required investment if the Mortgagee can document that the POC items were paid with the Borrower's own funds from an acceptable source.

The following documentation must be provided for any charges paid outside of closing needed to meet the borrower's MRI:

- A canceled check, evidence of wire transfer or money order to identify the party remitting the payment for the item outside of closing
- Verification that the funds were remitted by an borrower on subject transaction
- Verification of date of remittance by borrower

Checking and Savings Accounts

Checking and Savings accounts refer to funds from borrower-held accounts in a financial institution that allows for withdrawals and deposits.

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Documentation

Traditional documentation includes a written Verification of Deposit (VOD) and the borrower's most recent statement for each account, or direct verification by a third party vendor of the borrower's account covering activity for a minimum of the most recent available month.

Alternative documentation includes in lieu of a VOD, a bank statement showing the previous month's ending balance for the most recent month. If the previous month's balance is not shown, an additional statement(s) for the most recent two months is required.

All pages of the borrower's bank statements must be provided if the assets are being used for qualification purposes, including the beginning and ending balances and transaction history for the period covered.

Certificate of Deposit

When funds from a Certificate of Deposit (CD) are required for the down payment or closing costs, and the Note date precedes the CD's maturity date, proof of liquidation is required to reflect any potential early withdrawal penalties and confirm the net available funds.

Non-Sufficient Funds (NSF)

Borrowers with multiple NSF fees and/or overdraft charges on the current bank statements may need to provide an explanation if the loan is being manually underwritten and credit history or assets are in question.

The explanation should outline circumstances that led to the insufficient funds and affirm that those circumstances are not likely to occur in the future.

Overdraft protection withdrawals are generally considered a neutral factor and are not considered negatively. Overdraft protection funds are frequently unsecured loans or lines of credit and may not be used for the borrower's earnest money deposit (EMD) or funds to close unless they are transferred from another asset account held by the borrower and do not constitute an unsecured loan or line of credit.

Large Deposits

For individual deposits of more than 50 percent of the total monthly Effective Income, the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that the deposits are

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commensurate with the borrower's income and savings history and no debts were incurred to obtain part, or all, of the MRI.

When bank statements (typically covering the most recent two months) are used, the DE underwriter must evaluate the statements for any large deposits. If the source of the deposit is readily identifiable on the account statement, then no verification is needed, for example:

- A direct deposit from an employer (payroll), Social Security Administration, IRS or state income tax refund and the source is printed on the statement
- If the deposit readily identifiable as a rollover from an IRA or qualified retirement plan per IRS guidelines into another IRA or qualified plan

If the source of the deposit is not readily identifiable or if the DE underwriter suspects the funds may be borrowed (even if the source is identified), further information to fully document and source the funds must be obtained.

If the source of the deposit is from a title holder or non-title holder spouse that is not a borrower on the transaction, the large deposit must be considered a Gift. All applicable Gift documentation is required and the AUS must reflect the Gift.

When one line item on the account statement is representative of deposits from multiple sources, obtain documentation to clearly indicate the breakdown of the funds. Each individual source must be measured against 50% of the effective income threshold.

DE underwriters have authority to require at their discretion the source of deposit for any amount as needed if there is any indication funds may be from an ineligible source.

Documentation

To be considered fully documented and sourced, the following must be obtained:

- A written explanation from the borrower (such as letter of explanation or email) AND documentation verifying the source of the funds.

Non-Applicant Joint Account Holder

If a large deposit is made into an account jointly held with an individual that is not a borrower on the transaction, the deposit is considered a Gift. This guidance applies to both spouse and non-spouse joint account holders.

The AUS must reflect the Gift and all applicable Gift Fund and Acceptable Donor guidelines must be met.

Business Funds

FHA does not have specific guidance for the use of business assets in mortgage transactions. However, Cardinal allows business assets to be used for down payment, closing costs, and reserves, subject to the following requirements.

Documentation Requirements

For self-employed borrowers using business funds, the following must be provided:

- Business Asset Verification
  - Business assets must be verified using traditional or alternative documentation requirements outlined in Checking and Savings Accounts.
- Proof of Ownership
  - Documentation must confirm that the borrower owns the business account.
- Additional Reserve Requirement
  - Because business funds are typically needed for overhead and future capital needs, the borrower must have one (1) additional month of PITIA cash reserves beyond the loan's reserve requirement, based on all verified assets documented in Octane.
  - If the additional one (1) month of PITIA reserves is not available, an exception must be approved through the Requesting a Loan Exception Review process.

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Cash on Hand

Cash on hand may be allowed on an exception basis if the DE underwriter can satisfactorily determine how the funds were accumulated. The funds may not be from an illegal source of income. The DE underwriter must be able to determine that based on the borrower's income source, spending habits and expenses that the amount is reasonable.

The borrower must provide an explanation of how the funds were accumulated, the time period it took to save the funds. If the borrower has checking and savings accounts the borrower must explain why the funds were not deposited.

The funds must be deposited in a financial institution or held by a title company prior to closing. Verification of the funds is required.

College Accounts - 529C

A 529 College Savings Plan is an eligible source of funds provided that the borrower is the owner of the account and has access to the funds. The underwriter must evaluate the terms of the plan and calculate the effective net balance (after any potential fees, taxes, or penalties that would reduce the balance are considered).

To determine if liquidation is required, the underwriter must understand where the money is invested (stocks, bonds, mutual funds, etc.) and base the eligible asset amount on the effective net balance.

Custodial Accounts

Custodial Accounts are permitted as long as the borrower is the custodian on the account.

Down Payment

The down payment is the difference between the base mortgage amount (excluding MIP) and the sales price. A minimum down payment investment of 3.5% is required and must meet the following criteria:

- Can be from:
    - Borrower's own funds
    - Collateralized loan

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   - Gift
   - Loan by a family member
- Closing costs (including payment of application fee) cannot be used to meet the minimum 3.5% investment requirement and are not considered in the mortgage amount and down payment calculation for purchase transactions
- Seller real estate tax credit cannot be used as qualifying assets to offset minimum 3.5% investment requirement, however, a seller real estate tax credit can be applied towards the required cash to close on the Closing Disclosure (CD)
   - Verification of the borrower's minimum investment is required regardless of cash brought to or received at closing; the Borrower must have sufficient assets to meet the MRI and the Borrower paid closing costs and other prepaid items at the time of underwriting, without consideration of the real estate tax credit

Earnest Money Deposit

The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings.
If the earnest money deposit is from cash on hand, refer to Cash on Hand.

Documentation Required

- Copy of the canceled check or bank statement showing clearance of the check; or
- Receipt from the holder of the deposit; or
- Asset statement(s) to source the deposit per the AUS findings

Factory Built Housing with Separate Acquisition of Land

When the transaction involves the purchase of a factory built home and the lot on which the home will sit, and there are two separate contracts, the 1% earnest money deposit threshold should be evaluated against each contract independently.

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For example:

- Land acquisition contract price is $100,000
- Factory-built home contract price is $350,000
- The borrower pays two separate earnest money deposits, each tied to its respective contract, the deposits will be evaluated individually against the 1% threshold:
  - 1% of $100,000
  - 1% of $350,000

Employer Assistance/ Relocation

Borrowers who are relocating on behalf of an employer and are being offered relocation funds as part of their employment may use documented relocation funds for closing costs subject to the below requirements. The mortgage principal, interest, taxes, insurance and association dues for their former residence may be excluded if the relocation company has bought the residence and the following requirements are met:

All of the following are required to use employer-paid relocation benefits for closing funds:

- A copy of the executed buyout agreement to purchase the existing residence must be provided
- The employer may provide financial assistance towards closing costs, points and the upfront MIP if stated in the relocation package

A copy of the fully-executed settlement statement must be provided at closing as evidence of sale and release from liability on the borrower's former residence.

Salary advances may not be used as a source of funds for down payment or closing costs.

If the borrower is receiving funds prior to closing, proof of receipt must be provided. If the borrower is receiving funds after closing the borrower must have sufficient liquid funds without the employer assistance to close the transaction.

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Foreign Deposits

Funds may be used as an eligible source of funds for down payment, closing costs and reserves. Borrower funds that are deposited in a financial institution located either inside or outside of the U.S, but denominated in non-U.S. currencies, must be transferred into U.S institutions prior to closing.

The use of foreign deposits for closing funds and reserves require all of the following:

- Evidence of wire transfer of foreign assets into the borrower's U.S. bank/deposit account
- Documentation that transferred funds belonged to the borrower prior to transfer
- The source of all funds used for closing can be verified following the same requirements for U.S. based depository institution
- Evidence that the country of origin is not on the list of OFAC sanctioned countries
- Transfer of funds to the appropriate U.S. institution must be verified prior to closing

All documents must be filled out in English, or must be translated into English by the document originator or a disinterested third-party translation service. The translation must be attached to each document, and warrant that the translation is complete and accurate. Examples of acceptable third-party translation services:

- Google Translate or similar site
- Professional translation service
- An individual who considers themselves competent in both English and the document's original language

Gift Funds

Gifts refer to the contributions of funds with no expectation of repayment and may be used as an acceptable form of cash due at closing and/or the down payment. Gift funds may be used as reserves only when the underwriting method is automatic.

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FHA has clarified that Gift Funds are an eligible asset type for Purchase, No Cash-out and Cash-out refinance transactions.

Acceptable Donors

- The borrower's family members, as defined in the Family Member Definition section;
    - Note: A large deposit originating from a spouse that is not a borrower must be input and classified as a Gift and referenced as a Gift in the Automated Underwriting System.
- A close friend (including an individual not meeting the definition of Family Member) with a clearly defined and documented interest in the Borrower. Acceptable documentation supporting the relationship of a close friend includes:
    - A letter from the borrower outlining the length and closeness of the relationship and any one of the following:
        - Evidence of shared residency supported by utility bills or a lease agreement,
        - Evidence supporting a history of school or other club memberships including retail clubs,
        - Joint bank statements,
            - documentation provided must be evaluated in accordance with lending guidelines
        - Photos or evidence of social media friendship history,
        - Joint ownership of pet-related financial responsibilities,
        - Shared travel itineraries or event registrations,
        - Medical or emergency contact forms,
        - Public declarations or legal documentation,
        - Joint insurance policies, or

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        - Other written documentation supporting the closeness of the friendship
    - FHA has clarified that a fiance/fiancee could be eligible to provide a non-equity gift under the definition of a close friend (not currently residing with the borrower) or domestic partner (if currently residing with the borrower)
- Organizations
    - Government (federal, state, or local) agencies
    - Instrumentalities of governments that have programs providing homeownership assistance to low/moderate income families or first-time homebuyers may provide gift funds to the borrower
    - Charitable organizations
    - Unions to which the borrower is a member
    - Employers
    - Non-Profit Entities
    - Documentation of the gift must be reviewed to ensure that it is a gift, with no repayment expected and no lien (silent second) being placed on title restricting property transfer or Cardinal's ability to foreclose. For grants or second mortgages see the applicable section of this guide.

Gift Letter Requirements

The borrower must provide an executed gift letter from the donor, The gift letter must:

- State the dollar amount of the gift;
- Reference the property being financed;
- Indicate the date the funds were (or will be) transferred;
- Include a statement from the donor that no repayment is expected;

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- State the Gift donor's name, address, telephone number, and relationship to the borrower; and
- Include the institution and account number of the donor from which the funds were (or will be) transferred

Note: FHA has clarified that gift funds wired to the title company or settlement agent that are less than the gift letter, a new gift letter is not required. However, the gift amount in the Asset screen must be decreased to the actual gift amount and the AUS re-run. Gift funds wired to the title company or settlement agent that are more than the initial gift letter require an updated or additional gift letter and the assets adjusted accordingly.

Donor's Source of Funds

As a general rule, FHA is not concerned with how a donor obtains gift funds, provided that the funds are not derived in any manner from a party to the sales transactions.

- Cash on Hand is not an acceptable source of donor gift funds
- The seller, real estate agent, real estate broker or builder are not acceptable sources of gift funds. Gifts from these sources are considered "inducements to purchase" and must be subtracted from the sales price
- Cardinal Employees and affiliates are prohibited from providing the loan of gift funds to any donor unless the terms of the loan are equivalent to those available to the general public
- If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the donor must provide written evidence that the funds were borrowed from an acceptable source, not from an interested party to the transaction. Borrowers may not be obligors on any note to secure money borrowed to give the gift
- Large Deposits to the donors account are not required to be sourced unless the deposit could impact the donor's ability to "give" the gift (example, large deposits going in and out the same day for the amount of the gift) resulting in a shortfall of funds being available for the upcoming gift

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Documenting the Transfer of Gifts

The documentation below outlines items required dependent on the timing and type of gift remittance or transfer.

The underwriter may request additional supporting documentation to verify the stated relationship between the borrower and the donor if any inconsistencies are identified.

If the gift funds...	Then document gift transfer by...

Are already deposited in the Borrower's account	Obtaining one of the following:
	• One day statement from the gift donor showing the withdrawal and evidence of deposit into the Borrower's account. The donor's statement must:
	  ○ Identify the account holder's first and last name
	  ○ Identify the financial institution (Statements downloaded from the internet affirm the presence of the URL identifying the financial institution or depository name)
	  ○ Identify the account number, which at a minimum must include the last four digits
	• A copy of the donor's canceled check and evidence of deposit into the Borrower's account;
	• A copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account;
	• Evidence of the electronic transfer of funds from the donor's account to the Borrower's account
	
	The borrower's bank statement, record of account, account history, or receipt notification must show gift funds available and include the following:
	• Confirmation of gift deposit
	• Gift amount(s)
	• Date(s) of gift deposits/receipt

Will be provided at settlement	One of the following evidencing payment to the settlement agent: • Evidence of electronic transfer of funds from the donor's account; • Bank certified check; • Cashier's check; or • Other official bank check

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	Note: Gift funds wired to the title company or settlement agent that are less than the gift letter, a new gift letter is not required. However, the gift amount in the Asset screen must be decreased to the actual gift amount and the AUS re-run. Gift funds wired to the title company or settlement agent that are more than the initial gift letter require an updated or additional gift letter and the assets adjusted accordingly.
Are in the form of Earnest Money deposited with settlement agent	One of the following evidencing payment to the settlement agent: • Evidence of electronic transfer of funds from the donor's account; • Bank certified check; • Cashier's check; or • Other official bank check

Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

Gift of Equity

Only family members, as defined in the Family Member Definition section, may provide a gift of equity. A gift of equity may not come from a family member who does not meet the Family Member Definition, i.e. a cousin, niece or nephew. The gift of equity must be noted on the fully executed Sales Contract and Closing Disclosure (CD).

A gift of equity may be used to fund all or part of the down payment, closing costs and prepaid items. A gift of equity may also be used to pay off or pay down the borrower's Consumer Debt.

Both a Gift of Equity and a Personal Cash Gift may be used in the transaction and can be from the same donor, or different donors. The Personal Cash Gift must be documented per the Gift Funds section above.

- If the equity position is not sufficient to cover both the down payment and additional contributions towards closing costs, prepaids, etc., and a separate cash gift is being provided, a gift letter for a Gift of Equity and a gift letter for a Personal Cash Gift is required.

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- If the equity position is sufficient for both the down payment and additional contributions towards closing costs, prepaids, etc., one gift letter is acceptable.

Smart Document Reference: Doc | 192.001 - Gift of Equity Letter

Excess Funds

If the amount of the Gift of Equity exceeds the borrower's Minimum Required Investment (MRI), closing costs and other charges necessary to close the loan, the borrower may receive the remaining funds at settlement.

Gift of Equity from a Trust or Estate

FHA has clarified that a Gift of Equity can come from a Trust or Estate as long as the owner of the Trust or Estate is also the owner of the property, and meets the definition of an acceptable Family Member.

Identity of Interest guidelines to permit maximum financing for a family member transaction must also be met.

Gifts of Land

For gifts of land, obtain proof of ownership by the donor and evidence of the transfer of title to the borrower.

Gift Funds to Pay Consumer Debt

Only family members may provide gift funds to pay off or pay down the borrower's consumer debts. Any other Donor is considered a third party by HUD. See the interested parties section of the guide for more information.

HUD/FHA regards payment of a borrower's consumer debts with gift funds from third parties as an inducement to purchase and a dollar-for-dollar reduction to the sales price is required when calculating the maximum mortgage.

Private Savings Club

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool. Funds distributed to and received by the borrower are an acceptable source of funds.

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If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrowers' total debt.

Required Documentation

The establishment and duration of the club along with the borrower's receipt of funds from the club must be documented. The underwriter must also determine that the received funds were reasonably accumulated, and not borrowed.

Obtain the club's account ledgers and receipts, and a verification from the club treasurer that the club is still active.

The underwriter should carefully review all documentation related to the private savings club for items such as the level of access the borrower has to the funds, the conditions upon which the funds may be used or if the participants in the program may be an interested party to the transaction.

Real Estate Commission

If the borrower is a licensed Realtor, then he/she may use the entitled real estate commission from the sale of the subject property toward the required cash investment and/or closing costs, with no adjustments to the maximum mortgage. Verification from the Broker is required to determine the amount of authorized commission for use toward the subject transaction.

Only commission earnings from the occupying borrower may be considered an eligible asset in the transaction. However, a family member who is a Realtor may provide a gift to the borrower that is sourced from the entitled commission from the sale or listing of the subject property.

If there is an identity of interest between the Buyer and Seller, then the real estate commission from the sale or listing of the subject property cannot be used for down payment.

Octane

- Add the amount of commission to be used as an Earnest Money Deposit to ensure the amount is reflected on the CD
- The requirement 'Evidence of Earnest Money Clearance' can be waived

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- Place the verification from the Broker addressing the amount of authorized commission in the Purchase Contract folder

Summary

Down Payment	Closing Costs	Considered part of Interested Party Contribution (IPC)	Eligible Occupancy Types
Yes	Yes	No	Primary

Rent Credit

The cumulative amount of rental payments that exceed the Appraiser's estimate of fair market rent may be considered as accumulation of the borrower's cash investment with the following documentation on a Lease Option or Rent with Option to Purchase:

- A copy of the Lease Option or Rent with Option to Purchase Agreement, and
- Appraisal Form 1007 supporting fair market rents, and
- Documentation of the rent payments for the term of the agreement

Reserves

(TOTAL)

The Mortgagee must verify and document all assets submitted to the AUS. Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Reserves do not include:

- The amount of cash taken at settlement in cash-out transactions;
- Incidental cash received at settlement in other loan transactions;
- Equity in another Property; or
- Borrowed funds from any source

Unit Count	Months PITIA

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1-Unit with ADU If rental income is being used as Effective Income	Two Months
3-4 Unit	Three Months

(Manual)

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Reserves do not include:

- The amount of cash taken at settlement in cash-out transactions;
- Incidental cash received at settlement in other loan transactions;
- Gift funds;
- Equity in another Property; or
- Borrowed funds from any source

All manually underwritten loans (except for non-credit qualifying streamline refinances) must meet or exceed the following minimum reserve requirement:

Unit Count	Months PITIA
1-2 Unit	One Month
1-Unit with ADU, if rental income is being used as Effective Income	Two Months
3-4 Unit	Three Months

To be used as a Compensating Factor, reserves must equal	
Unit Count	Months PITIA
1-2 Unit	Three Month
1-Unit with ADU,	

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if rental income is being used as Effective Income	
3-4 Unit	Six Months

Retirement Account

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. Verification must be obtained that the borrower has ownership of the account, the account is vested and allows for withdrawals regardless of current employment status.

Eligible retirement accounts can be used under these guidelines:

- Obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account;
- Include up to 60 percent of the value of assets, *less any existing loans*, from the account, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties;
- Evidence of liquidation is required for any portion of the assets required for funds to close;
- Any portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves;
- For 401(k), 403(b), and IRA accounts, information found on the most recent account statement(s) obtained from the borrower or the financial institution can serve as confirmation of the accessibility of the funds. The statement(s) must not suggest that there are restrictions on the accessibility of the funds, based on the account type or investment vehicle.

Sale of Home

Funds from the sale of a home are an acceptable source of downpayment, closing costs, and reserves.

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Documentation Requirements

When the property is pending sale and information related to estimated funds to close and/or payoff of a mortgage liability needs to be documented, one of the following items must be provided prior to approval (PTA):

- Estimated Settlement Statement
- Title Fee Sheet
- Loan Estimate
- Closing Disclosure (CD)
- HUD-1
- Net Proceeds Calculation Worksheet

To use proceeds from the concurrent sale of owned real-estate for a down payment, minimum contribution requirements, and/or cash reserves:

- The closing of the other real estate transaction must take place before or simultaneously with the subject closing, and
- A fully-executed Closing Disclosure (CD), Final Closing Disclosure (CD), relocation buyout agreement, or Final Settlement Statement must be provided to verify net proceeds to the borrower

Sale of Personal Property

Personal property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

Borrowers may sell personal property to obtain cash for closing. The following documentation must be obtained:

- Evidence of the borrower's ownership of the asset,
- Satisfactory estimate of the value of the item,
- Copy of the bill of sale,
- Evidence of receipt, and

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- Deposit of proceeds

A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the mortgage transaction. The lesser of the estimated value or actual sales price must be used when determining the sufficiency of the assets to close.

Stocks and Bonds

Marketable securities in the form of stock or mutual funds, not in retirement accounts may be used for down payment, closing costs or reserves. The securities must be traded on a major market exchange (NYSE, AMEX, NASDAQ) where market activity and valuation can be obtained. Marketable securities are subject to valuation swings. To use marketable securities as an eligible source of funds obtain:

- The most recent two months or quarterly statement from the depository or investment firm verifying the balance, account number, and account activity
- If the funds are to be used for down payment and/or closing costs, evidence of liquidation is required
- If the funds are to be used as reserves, 70% of the account value may be used

Trade-In Value of Manufactured Home

If the borrower is selling or trading in an existing manufactured home as part of their down payment for the new manufactured home, document ownership (manufacturer/model, year, size) along with validation of the value with a 3rd party appraisal. In addition, the appraisal must confirm the removal of the home.

The sale proceeds or the trade-in value is the lesser of the 3rd party appraisal or the sale/trade-in value.

Document the sale by obtaining a notarized bill of sale with the seller's contact information, receipt of the sale proceeds, and evidence of deposit, and if applicable, evidence existing MH loan has been paid in full.

Document the trade-in by obtaining a copy of the trade-in payment, and evidence the trade proceeds have been deposited with the settlement agent.

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The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds. Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

Refer to Chapter 12 | Property and Appraisal Requirements for full guidelines related to Manufactured Homes.

Unacceptable Types of Assets

- Unsecured financing or unsecured loans (e.g. signature loans);
- Cash advances on credit cards;
- Loans secured against household goods and furniture;
- Gift funds with repayment or from an unacceptable donor/source;
- Unsecured borrowed funds;
- Rental Deposits;
- Funds that cannot be verified;
- Cryptocurrency, digital currencies or altcoins;
    - May be considered an acceptable source of funds once converted to cash and deposited into the borrower's account. A sufficient paper trail supporting the source of the funds must be provided.
- Sweat Equity

CAIVRS

Cardinal requires that a CAIVRS screening be performed and documented on each borrower and co-borrower; if any borrower has a delinquent or defaulted government obligation the credit risk of the transaction cannot be considered satisfactory. Any and all debts owed the federal government must be brought current or have a satisfactory repayment arrangement prior to the transaction being approved. A CAIVRS screening is not required for non-purchasing spouses in community property states, or for FHA Streamline Refinance Transactions.

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The CAIVRS report will provide a Ten-Character CAIVRS confirmation code. The first character represents the type of credit issue, if any. Below are the field description case types:

- A - Approved by CAIVRS (No credit issue exists)
- B - Multiple cases from one or more Federal agencies found in CAIVRS
- C - Claim filed
- D - Default on loan
- F - Foreclosure of loan
- J - Judgment filed

Verification

If a delinquent Federal Debt is reflected in the CAIVRS report, the DE underwriter must verify the validity and delinquency status of the debt by contacting the FHA Resource center 1-800-CALL FHA (225-5342). The underwriter must confirm why the borrower has a warning on the FHA Case Assignment and confirm that no other insuring issues exist.

The borrower must also call the FHA CAIVRS claim department number that can be found on the CAIVRS document to confirm the debt has been resolved.

If it is confirmed that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the borrower is ineligible for an FHA-insured mortgage until the borrower resolves the debt with the creditor agency.

A mortgage cannot be denied solely on the basis of CAIVRS information that has not been verified.

If resolved either by determining that the information in CAIVRS is no longer valid or by resolving delinquent status as stated above, the mortgage application may continue to be processed.

If the debt is still delinquent and the borrower is making payments, this does not meet the definition of “resolved” and the loan is ineligible for FHA Financing.

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Resolution

In order for a borrower with verified delinquent Federal Debt to become eligible, the borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

The creditor that is owed the debt or the credit agency reporting the debt as delinquent must verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

Required Documentation

Documentation from the creditor or agency to support the verification and resolution of the debt must be retained in the loan file. For debt reported through CAIVRS, evidence of resolution requires obtaining a clear CAIVRS report. FHA will update the CAIVRS to read “Success” once the documentation has been provided to them to clear the claim; however, the FHA Case Assignment and the FHA appraisal Logging will always reflect “Warning”.

Smart Document Reference 101.001 - Evidence of CAIVRS Resolution

Smart Document Reference 101.000 - Credit Alert Interactive Voice Response System (CAIVRS) Authorization Code

Eligibility Period for Borrowers Delinquent on FHA-Insured Mortgages

If a borrower is currently delinquent on an FHA-insured mortgage, they are ineligible for a new FHA-insured mortgage unless the delinquency is resolved.

LDP/SAM

The System for Award Management (SAM) and the The Limited Denial of Participation (LDP) lists must be checked to determine if the borrower or other party to the transaction is barred from doing business with the federal government. Screen prints of the check must be retained in the loan file.

An exception may be made if the Seller is on the SAM list but property being sold is the Seller’s Principal Residence.

All parties must be verified as follows:

- Seller (except where selling Principal Residence)
- Listing Agent and selling Real Estate Agent

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- Loan Originator
- Loan Processor
- Appraiser
- 203(k) Consultant FHA
- Closing Agent
- Title Company

Refer to Chapter 2 Documentation Standards for additional details regarding the LDP/SAM search process.

Credit and Liabilities

Credit Report and Loan Decision Score

Cardinal accepts merged credit reports and mortgage only credit reports (for certain loan products only) dated within 120 days of the funding date. Residential mortgage credit reports (RMCR) and in-file credit reports are not acceptable. The most recent and accurate credit report must be used in our loan decision.

For Credit Report requirements not addressed below, refer to Chapter 2 Documentation Standards.

For Streamline Refinance transactions, it is used solely to validate the credit score. Each borrower's respective credit score is determined by using the middle/lower method.

- If there are three (3) valid credit scores, then the middle of the three is used.
- If there are three (3) valid credit scores and two (2) of the scores are the same, then the duplicate score is used.
- If there are two (2) valid credit scores, then the lower of the two scores is used.
- If there is one (1) valid credit score, then that score is used.

Loan decision score is determined as follows:

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- When there is no Co-borrower, the borrower's representative credit score is the decision credit score.
- When there are multiple borrowers, the lowest representative credit score amongst all borrowers is the loan decision score.

Evaluating Credit History

Credit and Non-Credit Qualifying Streamlines

Credit and Non-credit qualifying streamlines must be manually underwritten based solely on the borrower's mortgage history. Please refer to the product snapshot for specific mortgage payment history requirements based on the loan program and overall risk parameters.

(TOTAL)

The Mortgagee must analyze the borrower's credit history in accordance with the Manual Underwriting and/or Downgrades section. If a determination is made that the mortgage must be downgraded to manual underwriting, the Mortgagee must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded Mortgage.

(Manual)

The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness. The Mortgagee must not consider the credit history of a non-borrowing spouse.

Types of Payment Histories

The underwriter must evaluate the borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) revolving charge accounts.

Satisfactory Credit

The DE underwriter may consider a borrower to have an acceptable payment history if:

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- The borrower has made all housing* and installment debt payments on time for the previous 12 months, and
- Has no more than two 30-day late mortgage payments or installment payments in the previous 24 months
- The borrower has no major derogatory credit on revolving accounts in the previous 12 months; major derogatory credit on revolving accounts must include any payments made more than 90 days after the due date, or three or more payments more than 60 Days after the due date
- The above seasoning requirements are as of the underwriting Conditional Approval date, not the FHA Case Number Assignment Date.

(*)FHA has clarified the following; If property taxes are delinquent, and the associated mortgage does not escrow for the taxes, the (delinquent) payment history of those property taxes does not need to be analyzed as part of the housing payment history.

Delinquent property taxes can be included as an item to be paid through a Cash Out Refinance.

Payment History Requiring Additional Analysis

If a borrower's credit history does not reflect satisfactory credit as stated above, the borrower's payment history requires additional analysis.

The underwriter must analyze the borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or Extenuating Circumstances. The DE underwriter must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

The underwriter may only approve a borrower with a credit history not meeting the satisfactory credit history noted above if the underwriter has documented the delinquency was related to Extenuating Circumstances.

Payment History on Housing Obligations

The borrower's housing payment history must always be verified through one of the following:

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- The credit report; or
- Verification of rent received directly from the landlord (for landlords with no Identity of Interest with the borrower); or
- A review of canceled checks that cover the most recent 12-month period; or
- Verification of Mortgage received directly from the Servicer
    - 12 months canceled checks or bank statements supporting an acceptable payment history must be provided when a Private Verification of Mortgage is utilized and the lender is a party with an Identity of Interest
- If the borrower lives "rent free", provide a letter of explanation from the property owner verifying rent free status and the amount of time the borrower has been living rent free.

  Note: If a mortgage payment does not escrow for taxes, the underwriter does not need to analyze the payment history of the property taxes as part of the housing payment history.

Positive Rental Payment History

Total Mortgage Scorecard allows for the utilization of a positive rental payment history in its credit risk assessment when delivering credit decisions.

Positive Rental Payment History refers to the on time payment by a Borrower of all rental payments in the previous 12 months. A rental payment is considered to be on time when it is paid within the month due.

A First Time Homebuyer refers to an individual who has not held an ownership interest in another property in the three years prior to the Case Number assignment. First Time Homebuyer includes an individual who is divorced or legally separated and who has had no ownership interest in a Principal Residence (other than joint ownership interest with a spouse) during the three years prior to Case Number assignment.

Standard

A Mortgagee may submit the transaction to TOTAL Mortgage Scorecard indicating a Positive Rental Payment History provided:

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- The transaction is a purchase;
- At least one Borrower is identified as a First Time Home Buyer;
- The Minimum Decision Credit Score (MDCS) is 620 or greater; and
- At least one Borrower has a documented history of a Positive Rental Payment History with monthly payments of $300 or more for the previous 12 months

Note: Manual underwriting is not permitted.

Required Documentation

To verify the Borrower's rental payment history, the Mortgagee must obtain a copy of the executed rental or lease agreement and one of the following:

- Written verification of rent from a landlord *with no Identity of Interest with the Borrower*; or
- 12 months canceled rent checks; or
- 12 months bank or payment service statements documenting rents paid; or
- Landlord reference from a rental management company

Borrowers renting from a Family Member must provide a copy of the executed rental or lease agreement and 12 months canceled checks or bank statements to demonstrate the satisfactory rental payment history.

Borrower With No Credit Scores / Non-Traditional Credit

Cardinal will allow borrowers without credit scores to qualify using alternative credit references on Purchase and Rate and Term Refinance transactions (ineligible for Cash-out). Loans utilizing non-traditional credit are subject to manual underwriting guidelines.

Occupancy

All borrowers must occupy the subject property.

Evaluating Non-traditional Credit

The Mortgagee may deem a Borrower to have satisfactory credit if the Borrower's non-traditional credit history covering at least 12 months in duration has:

- No history of delinquency on rental housing payments,
- No more than one 30-Day delinquency on payments due to other creditors, and

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- No collection accounts/court records reporting (other than medical and/or identity theft), charge offs or judgments

Sufficiency of Credit References

To be sufficient to establish the Borrower's credit, the credit history must include *three* credit references, including *at least one* of the following:

- Rental housing payments (subject to independent verification if the Borrower is a renter);
- Telephone service; or
- Utility company reference (if not included in the rental housing payment), including:
    - Gas;
    - Electricity;
    - Water;
    - Television Service Providers;
        - Non-traditional television service providers, such as Netflix, Disney+, Hulu, YouTube TV, Sling, or similar services
        - Traditional cable television providers, such as Comcast, Cox, Spectrum, Xfinity, or similar providers
        - Traditional satellite television providers, such as DIRECTV and DISH Network
    - Internet Service Providers;
        - National and regional internet service providers include, but are not limited to, companies such as Comcast/Xfinity, Spectrum, Mediacom, Optimum, Astound Broadband, WOW!, Breezeline, or similar regional or municipal internet service providers
        - Satellite internet service providers include, but are not limited to, Viasat, HughesNet, and Starlink
        - Wireless internet service providers include, but are not limited to, Verizon 5G Home, T-Mobile Home Internet, and AT&T Internet Air

Note: if the borrower cannot provide a housing history or at least one reference from above, the borrower's credit history is insufficient and the loan request will be denied for an insufficient credit history.

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If the Mortgagee cannot obtain all three credit references from the list above, the Mortgagee may use a combination of at least one reference from above and two of the following sources of unreported recurring debt:

- Insurance premiums not payroll deducted (for example, medical, auto, life, renter's insurance);
- Payment to child care providers made to businesses that provide such services;
- School tuition;
- Retail store credit cards (for example, from department, furniture, appliance stores, or specialty stores);
- Rent-to-own (for example, furniture, appliances);
- Payment of that part of medical bills not covered by insurance;
- A documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
    - were made at least quarterly;
    - were not payroll deducted, and;
    - caused no insufficient funds (NSF) checks;
- An automobile lease;
- A personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or
- A documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user

Independent Verification of Non-Traditional Credit Providers

The Mortgagee may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

- To verify the existence of each credit provider, the Mortgagee must review public records from the state, county, or city or other documents providing a similar level of objective information.
- To verify credit information, the Mortgagee must:
    - Use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
    - Obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider

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- To verify the Borrower's rental payment history, the Mortgagee must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment

Acceptable Forms for Verification of Non-Traditional Credit

Non Traditional Mortgage Credit Report

A Non Traditional Mortgage Credit Report (NTMCR) from a credit reporting agency is an acceptable method of verifying a borrower's non-traditional credit history if the report meets the following requirements:

- The existence of the credit providers;
- That credit was actually extended to the borrower; and
- Verification of the creditor's published address or telephone number.
- The NTMCR must be formatted similar to a traditional credit report and must provide the following:
    - Creditor's name
    - Type of account
    - Date the account was opened
    - High credit amount
    - Current status of the account
    - Monthly payment
    - Unpaid balance
    - Payment history (for example 0x30, 0x60)
    - A payment history listed as satisfactory or acceptable is not permitted.

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Credit References

In lieu of obtaining a Non Traditional Mortgage Credit Report (NTMCR), Cardinal will accept credit references directly from the borrower's creditors. If the creditor is an individual, twelve (12) months canceled checks are required to verify the history.

References from businesses require a written verification containing:

- Creditor's name
- Creditor's address
- Creditor's phone number
- Type of account
- Date the account was opened
- High credit amount
- Current status of the account
- Monthly payment
- Unpaid balance
- Payment history (for example 0x30, 0x60)
- A payment history listed as satisfactory or acceptable is not permitted.

Independent verification of the business address and phone number is required.

Accounts with Variable Payment Options

Some accounts provide flexible payment options where a portion of the balance is required to be paid in full and the other portion is treated as a revolving balance with a minimum due requirement.

If a statement has already been included or provided detailing flexible payment options, review the statement to establish the proper treatment of each option.

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If the credit bureau report is unclear as to the type of account that is being reported (such as, account reports as both revolving and open), supporting documentation must be provided in order to establish how the account should be treated.

Alimony/Child Support/Separate Maintenance Payments

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, the payments must be considered as part of the borrower's recurring monthly debt obligations.

Documentation Requirements

- The borrower must provide a copy of a divorce decree, separation agreement, order for support, or any other written legal agreement to verify required payments,
- Pay stubs covering no less than 28 consecutive days must be obtained to verify whether the Borrower is subject to any order of garnishment relating to the alimony, child support, and maintenance, and
- Any additional documentation as requested by the underwriter

Delinquent child support must be considered in the analysis of the loan. If past due child support is not reflected on the credit report, and/or is not evaluated by TOTAL Mortgage Scorecard, the loan must be downgraded and manually underwritten.

Authorized User Accounts

Accounts for which the borrower is an authorized user must be included in a borrower's DTI ratio unless the borrower can document that the primary account holder has made all required payments on the account for the previous 12 months.

If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

Note: Authorized user accounts reflected on credit are considered acceptable tradelines, regardless of the number of borrower-owned accounts, and may be considered when assessing the borrower's credit history.

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Bankruptcy

Chapter 7 and Chapter 11

(TOTAL)

Two years must have passed since the discharge date of any bankruptcy. If the bankruptcy was discharged within two years from the date of Case Number Assignment, the Mortgage must be downgraded to a Refer and manually underwritten.

Required Documentation

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the Mortgagee must obtain the bankruptcy and discharge documents.

(Manual)

A Chapter 7 or Chapter 11 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Mortgage if, at the time of Case Number Assignment, at least two years have elapsed since the date of the bankruptcy discharge. During the most recent two years, the Borrower must have:

- Re-established good credit; or
- Chosen not to incur new credit obligations

An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower:

- Can show that the bankruptcy was caused by Extenuating Circumstances beyond the Borrower's control; and
- Has since exhibited a documented ability to manage their financial affairs in a responsible manner.

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Chapter 13

(TOTAL)

The Mortgagee must document the passage of two years since the discharge date of any bankruptcy, including a Chapter 13. If the bankruptcy was discharged within two years from the date of Case Number Assignment, the loan must be downgraded to a Refer and manually underwritten.

Please note, seasoning requirements do not apply to a dismissal of a Chapter 13 Bankruptcy. If the bankruptcy has been dismissed, no further action is needed, however, any mortgage or non-mortgage delinquencies included in the bankruptcy will need to be assessed independently and meet applicable guidelines.

(Manual)

An active Chapter 13 bankruptcy does not disqualify a borrower from obtaining an FHA insured mortgage, if at the time of Case Number Assignment at least 12 months of the pay-out period under the bankruptcy has elapsed.

The lender must determine that during the most recent 12 months, the borrower's payment performance has been satisfactory and all required payments have been made on time, AND the borrower has received written permission from the bankruptcy court to enter into the mortgage transaction (see Chapter 13 Bankruptcy in Minnesota below).

If the borrower converts a Chapter 13 into a Chapter 7 that was subsequently discharged within the past 12 months, then refer to Chapter 7 guidance above.

Bankruptcy and discharge documents will be required if the credit report does not verify the discharge date or additional documentation does not confirm if any liabilities were discharged in bankruptcy.

The underwriter must also document the events that led to the bankruptcy are not likely to recur in the borrower's current situation.

Chapter 13 Bankruptcy in Minnesota

Written permission from the Bankruptcy Court permitting a borrower to enter into a new mortgage transaction is no longer provided in the state of Minnesota. For a Chapter 13 Bankruptcy not yet

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discharged, HUD requires an amendment to the Bankruptcy to include the new mortgage debt. If an amendment cannot be obtained, the bankruptcy must be discharged.

Under no circumstances will FHA issue an exception for obtaining written approval from the courts to enter into our transaction.

Chapter 12

Follow guidance for Chapter 13 Bankruptcy.

Business Debt in Borrower's Name

When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI calculation, unless the mortgagee can document that the debt is being paid by the borrower's business, and the debt was considered in the cash flow analysis of the borrower's business.

The debt is considered in the cash flow analysis when the borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds.

- Note: When the borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis. Thus, the debt cannot be excluded since the entire payment is not reflected in the cash flow analysis.

The underwriter must confirm:

- The account in question does not have a history of delinquency; and
- The obligation was paid out of company funds, as evidenced by:
    - Documentation of business payment of the liability for no less than six months preceding the Case Number Assignment date. Acceptable documentation includes:
        - Six months canceled checks or bank statements from the business account, or
        - Evidence payment was cashed or debited from the business bank account for six months, or
        - Evidence the payment was transferred into a third-party money transfer application account that is owned by the business for six months.

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  - In all cases, documentation must support the funds used to pay the omitted debt came directly from the business account;

- And,
- The cash flow analysis of the business took payment of the obligation into consideration, supported by two years tax returns and a YTD Profit and Loss statement (where applicable);
  - If the debt is included as a portion of the deductible Car and Truck Expense:
    - The tax return supports the total of 12 payments for the excluded liability, and
    - A written statement prepared by a Tax Preparer, Certified Public Account, Bookkeeper or other tax professional is provided verifying the 12 months payments are located within the Car and Truck Expense line.
  - If the debt is included as a portion of the deductible Rent or Lease Expense:
    - The tax return supports the total of 12 payments for the excluded liability, and
    - A written statement prepared by a Tax Preparer, Certified Public Account, Bookkeeper or other tax professional is provided verifying the 12 months payments are located within the deductible Rent or Lease Expense line.
  - If the debt is included as a portion of the deductible Interest:
    - The liability may not be excluded if the payment amount reflected in the cash flow analysis does not include both Principal and Interest.

The account payment will need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds
- If the business provides acceptable evidence of its payment of the obligation, but the cash flow analysis of the business does not reflect any business expense related to the obligation.
  - Note: If the asset is being depreciated but the payment is not being reflected as noted above, the payment must be included in the debt obligations.
- If the account in question has a history of delinquency.

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Charge-off Accounts

(TOTAL)

The Mortgagee is not required to obtain an explanation of collection accounts, Charge-Off Accounts, accounts with late payments, Judgments or other derogatory information.

HUD does not address charged-off accounts related to mortgage liabilities; when a second mortgage shows as a charged-off account on credit, the guidance in this section can be applied.

Refer to Disputed Accounts for additional guidance related to disputed derogatory credit accounts.

(Manual)

The Mortgagee must determine if Charge Off Accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- Extenuating Circumstances

Refer to Disputed Accounts for additional guidance related to disputed derogatory credit accounts.

Required Documentation

The Mortgagee must document reasons for approving a Mortgage when the Borrower has any Charge Off Accounts. The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.

Collections

The cumulative balance of all non-medical derogatory collections (including any collections accounts of a non-purchasing spouse in community property states unless excluded by law) must be calculated.

All medical collections and all charge-offs accounts (medical and non-medical) are excluded in calculating the $2,000 cumulative limit.

(TOTAL)

No explanation or documentation is required. The presence of the collection has already been taken into consideration in the borrower's credit score.

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- < $2,000 cumulative balance, the DE underwriter is not required to consider or evaluate the collections accounts.
- > $2,000 cumulative balance the DE underwriter must include monthly payments in the DTI for accounts that will remain open after closing. Note, accounts may not be paid down to meet threshold requirements.

Capacity Analysis is required with > $2,000 cumulative balance of all outstanding collections (excluding medical and charge offs), and includes any of the following actions:

- Payment in full of the unpaid collection with verified funds from an acceptable source; or
- Documented payment arrangement with the creditor with evidence of scheduled monthly payments made and included in the DTI ratio; or
- If no payment arrangement can be documented, then calculate the monthly payment of 5% of each unpaid collection balance in the DTI ratio.

(Manual)

The DE underwriter must consider any unpaid collections in the credit analysis and document the reason for loan approval.

Regardless of the outstanding collection amount, the DE underwriter must determine if the collection resulted from:

- Disregard for financial obligations; or
- Inability to manage debt; or
- Extenuating circumstances beyond the borrower's control

The borrower must provide a written explanation and provide supporting documentation for each collection, which must be consistent with other credit information in the loan file.

Community Property States

Except when excluded by state law, if the borrower resides in a community property state OR if the subject property is located in a community property state, the debts of the non-purchasing spouse must

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be considered in the borrower's monthly recurring obligations, debt ratio and in the residual income calculation. When moving *from* a community property state *to* a non-community property state, the debts of the non-purchasing spouse must also be considered.

The non-purchasing spouse must provide consent and authorization to order a credit report along with consent to verify their SSN with the Social Security Administration (SSA). FHA does not permit any exceptions for the provision of a consent and authorization from the non-purchasing spouse.

Credit Report Requirements

If the non-purchasing Spouse does not have a SSN, a credit report from an acceptable credit report provider containing a public records search is still required. The credit report must contain, at a minimum, the following information for the non-borrowing spouse:

- Full name
- Date of birth
- Previous addresses for the last two years

Octane, Cardinal's Loan Origination Software, calculates when credit reports are required here: Calc | Credit Required.

Community Property Debt Handling

Collection accounts of a non-borrowing spouse in a community property state must be included in the $2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless excluded by state law. See the section - Collection Accounts for specific requirements.

Disputed, non-collection accounts, with status being actively disputed on credit report or credit supplement or other documentation do not need to be included in debt to income ratio.

All defaulted federal debt, open judgments and liens, including those of the non purchasing spouse, must be satisfied unless acceptable documentation is provided evidencing the derogatory debt is eligible for exclusion as noted within the Community Property Debt Inclusion Exception section below.

Use the greater of the monthly payment amount of 5% of the outstanding balance of all debts and include in the debt ratio calculation to calculate the monthly obligation of the non purchasing spouse.

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Delinquent student loans of a non-borrowing spouse in a community property state do not need to be paid in full or resolved if they are simply delinquent. However, if they are in collection status, follow the collection guidelines above. If the delinquent student loan is now a judgment, follow the judgment guidelines above.

Community Property Debt Inclusion Exception

Except for debt obligations specifically excluded by state law, the debts of the non purchasing spouse must be considered in the debt ratios. Cardinal Financial will consider exceptions to government lending requirements which require the inclusion of non borrowing spouse debts for some scenarios in which the subject property or borrower's residence is located within a community property state and the subject property transaction involves a government loan program.

These exceptions must be reviewed and approved by the Cardinal Credit Committee.

Subject Property State	Eligible for Spousal Debt Exception
Arizona	Yes
California	No
Idaho	Yes
Louisiana	Yes
Nevada	Yes
New Mexico	No
Texas	Yes
Washington	Yes
Wisconsin	Yes

Arizona

- Debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);

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- Debt requested for exclusion is held by the non-borrowing spouse, is not jointly held by the couple and there has been no agreement to jointly hold;
- Debt requested for exclusion was acquired prior to the date of the marriage in accordance with the state law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.
- Additionally the satisfaction of collections and judgments of non applicant spouses even if obtained post marriage to borrower for FHA loans is not required in the following circumstances:
    - The non applicant spouse is not contributing towards the down payment or costs on the transaction including gift funds or any funds being remitted from a joint account. If any subject transaction funds are remitted by the spouse in the form of a gift or jointly held asset, all collections and judgments of the non-purchasing spouse are required to be paid in full prior to closing.
    - The non applicant spouse signs the Disclaimer Deed in order to prevent any judgments from attaching to the property. The execution of this document will be a Prior to Approval requirement.
    - The non applicant spouse may not be a title holder.

Idaho

- Separate assets of the borrowing spouse must be used in the transaction;
- Debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non-borrowing spouse, is not jointly held by the couple and there has been no agreement to jointly hold;
- Debt requested for exclusion was acquired prior to the date of the marriage in accordance with the state law's classification of community debt considerations; and

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- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

Louisiana

- Debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non-borrowing spouse, is not jointly held by the couple, and there has been no agreement to jointly hold;
- Debt requested for exclusion was acquired prior to the date of the marriage in accordance with the state law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.
- The non applicant spouse is permitted to sign or intervene in the mortgage to indicate his or her intention to waive homestead exemption rights.
- When the non applicant spouse chooses to intervene in the mortgage to waive their homestead exemption rights, the following requirements must be met:
    - Purchase Transactions
        - A copy of an unsigned, unnotarized Intervention Affidavit must be provided prior to approval to evidence the waiver.
        - A Prior to Funding document will then be provided for the Signed Version of the Intervention Affidavit, signed by the non-borrowing / non-purchasing spouse.
        - The Affidavit must be notarized and recorded with the mortgage, and
        - The title company and the settlement agent must agree to the Affidavit.
    - Refinance Transactions

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        - A copy of a signed Intervention Affidavit must be provided prior to approval to evidence the waiver.
        - The Affidavit must be notarized and recorded with the mortgage, and
        - The title company and the settlement agent must agree to the Affidavit.
    - By indicating that the subject transaction is receiving special handling related to the spousal waiver, a closing task and requirement will be created requiring the non applicant spouse to execute the mortgage as the "intervener".

Nevada

- Debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non-borrowing spouse, is not jointly held by the couple and there has been no agreement to jointly hold;
- Debt requested for exclusion was acquired prior to the date of the marriage in accordance with the state law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

Texas

- Debt type requested for exclusion is installment, closed-end mortgage or revolving;
- Debt requested for exclusion is held by the non-borrowing spouse, is not jointly held by the couple and there has been no agreement to jointly hold;
- Debt requested for exclusion was acquired prior to the date of the marriage in accordance with the state law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

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Washington

- Separate assets of the borrowing spouse must be used in the transaction;
- Debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non borrowing spouse is not jointly held by the couple and there has been no agreement to jointly hold;
- Debt requested for exclusion was acquired prior to the date of the marriage in accordance with the state's law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

Wisconsin

- Separate assets of the borrowing spouse must be used in the transaction;
- Debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non borrowing spouse is not jointly held by the couple and there has been no agreement to jointly hold;
- Debt requested for exclusion was acquired prior to the date of the marriage in accordance with the state's law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

Smart Document Reference 110.000 - Marriage Certificate

Consumer Credit Counseling

Voluntary participation in Consumer Credit Counseling Services (CCCS) does not disqualify a borrower from obtaining a FHA loan.

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If the loan is approved through an AUS, no explanation letter or further information is required.

Manually underwritten loans require:

- Documentation of the debt restructure and proof that one year of the plan has elapsed
- Borrower's has made all required payments have been made on time
- The borrower must receive written permission from the counseling agency to proceed with the new loan

Collateralized Loans

A Collateralized Loan is a loan that is fully secured by a financial asset of the borrower, such as deposit accounts, certificates of deposit, investment accounts, or real property. These assets may include stocks, bonds, and real estate other than the property being purchased.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The amount of the corresponding asset must be reduced by the amount of the collateralized loan.

Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans. The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds.

Unacceptable borrowed funds include:

- Unsecured signature loans;
- Other similar unsecured financing
    - Unsecured loans such as cash advances on credit cards and borrowing against Personal Property are not acceptable sources for the borrower's MRI. Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles

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Required Documentation

- The Mortgagee must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

Contingent Liability

A Contingent Liability refers to a liability that may result in the obligation to repay only when a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment.

Contingent liabilities may include Cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

- Include monthly payments on contingent liabilities in the calculation of the borrower's monthly obligations, *unless*:
    - The underwriter verifies and documents that there is no possibility that the debt holder will pursue debt collection against the borrower should the other party default, or
    - Documentation is obtained to support that the other legally obligated party has made 12 months of consecutive and timely payments; the other legally obligated party does not need to be the primary obligor on the Note to exclude the payment.
        - In the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI. Due to not meeting the required 12-month recent consecutive timely payments made by the other party, the monthly payment must be included even if the debt has been brought current and/or the forbearance canceled.
    - Note: when a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required
- Obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the borrower's name.

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Debt(s) of a non-purchasing spouse in a community property state may be excluded from the qualifying ratios if the debt is a result of a Contingent Liability and all requirements as listed above can be met.

Federal Debt

Federal Tax Liens

Federal taxes are due each year on the date determined by the Internal Revenue Service (IRS). Taxpayers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS. An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. Applicants must pay their estimated income tax due by the IRS filing date or they are determined delinquent by the IRS.

The guidance below provides direction on the handling of delinquent federal taxes resulting in either a Federal Tax Lien or no Federal Tax Lien.

Delinquent Tax Liability - Prior Year's Tax Liability | Resulting in Federal Tax Lien
Delinquent tax liability refers to the prior year's tax liability. Taxes due in this case result from any amount owed to the IRS *after* the tax deadline for a particular tax year. • For example, 2024 is considered the most recent tax year. For purposes of determining Delinquent Tax Liability, 2023 is considered the prior tax year for applicability of the below guidance. • For guidance related to Tax Filing Dates, refer to Chapter 2 Documentation Standards Tax Documentation Policy.
Borrowers with Delinquent Federal Tax Liens are ineligible. Required documentation includes: • Proof of payment in full of the prior year's tax liability / tax lien (acceptable documentation includes a canceled check, bank statement, credit card statement, IRS Record of Account, or IRS printout supporting a zero balance) , or • IRS Installment Agreement. Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the

debt and the borrower has made timely payments for at least three months of the scheduled payments;

- The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments,
- The payment amount in the agreement must be included in the calculation of the borrowers debt-to-income (DTI) ratio,
- Documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable, must be obtained.

Public records and credit information must be checked to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government.

Delinquent Tax Liability - Prior Year's Tax Liability | NOT Resulting in Federal Tax Lien

Delinquent tax liability refers to the prior year's tax liability. Taxes due in this case result from any amount owed to the IRS *after* the tax deadline for a particular tax year.

- For example, 2024 is considered the most recent tax year. For purposes of determining Delinquent Tax Liability, 2023 is considered the prior tax year for applicability of the below guidance.
- For guidance related to Tax Filing Dates, refer to Chapter 2 Documentation Standards Tax Documentation Policy.

Borrowers who owe taxes that have NOT resulted in a lien status prior to closing are eligible for FHA financing.

- FHA has clarified that federal taxes due after the April tax filing deadline require evidence of an established payment plan, or verification the borrower has paid the taxes in full prior to or at closing.

If an established payment arrangement has been made, the following is required:

- Copy of the approved arrangement plan,
- Evidence the payments have been made per the agreement,
  - A minimum of one (1) month payment documentation is required unless the payment plan does not provide for its first payment due date until after the Effective Note Date.
- Monthly payment amount included in the DTI

If the borrower has income tax debt with a newly established payment arrangement (no payments made):

- Provide the approved arrangement or executed IRS Form 9465 (acceptable only for taxes due less than $50,000), and
- Monthly payment amount included in the DTI.
- If no payment is due prior to the closing date, no documentation of payment history is required.

Non-Delinquent Tax Liability - Current Year's Tax Liability | Not Resulting in a Tax Lien

Non- Delinquent Tax Liability refers to the current year's tax liability.

- For example, 2024 is considered the most recent tax year. For purposes of determining Non-Delinquent Tax Liability, 2024 is considered the current tax year for applicability of the below guidance.
- For guidance related to Tax Filing Dates, refer to Chapter 2 Documentation Standards Tax Documentation Policy.

Borrowers who owe taxes that have NOT resulted in a lien status prior to closing are eligible for FHA financing.

- FHA has clarified that federal taxes due after the April tax filing deadline require evidence of an established payment plan, or verification the borrower has paid the taxes in full prior to or at closing.

If an established payment arrangement has been made, the following is required:

- Copy of the approved arrangement plan,

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- Evidence the payments have been made per the agreement,
  - A minimum of one (1) month payment documentation is required unless the payment plan does not provide for its first payment due date until after the Effective Note Date.
- Monthly payment amount included in the DTI

If the borrower has income tax debt with a newly established payment arrangement (no payments made):

- Provide the approved arrangement or executed IRS Form 9465 (acceptable only for taxes due less than $50,000), and
- Monthly payment amount included in the DTI.
- If no payment is due prior to the closing date, no documentation of payment history is required.

Tax Extension | Non-Delinquent Tax Liability | Not Resulting in a Tax Lien

- Tax Extensions are filed for the current tax year to obtain additional time to file the return.
- For example, 2024 is considered the most recent tax year. For purposes of determining Non-Delinquent Tax Liability, 2024 is considered the current tax year for applicability of the below guidance.
- For guidance related to Tax Filing Dates, refer to Chapter 2 Documentation Standards Tax Documentation Policy.

Borrowers who owe taxes that have NOT resulted in a lien status prior to closing are eligible for FHA financing.

- FHA has clarified that federal taxes due after the April tax filing deadline require evidence of an established payment plan, or verification the borrower has paid the taxes in full prior to or at closing.

Required Documentation:

- IRS Form 4868,
- Tax transcript showing “No Record of Return Filed”, and

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- Proof of payment in full of the current year's tax liability, or
- IRS Installment Agreement.

If an established payment arrangement has been made, the following is required:

- Copy of the approved arrangement plan,
- Evidence the payments have been made per the agreement,
  - A minimum of one (1) month payment documentation is required unless the payment plan does not provide for its first payment due date until after the Effective Note Date.
- Monthly payment amount included in the DTI

If the borrower has income tax debt with a newly established payment arrangement (no payments made):

- Provide the approved arrangement or executed IRS Form 9465 (acceptable only for taxes due less than $50,000), and
- Monthly payment amount included in the DTI.
- If no payment is due prior to the closing date, no documentation of payment history is required.

Student Loans

Mortgagees are prohibited from processing an application for an FHA-insured Mortgage for Borrowers with delinquent federal non-tax debt. Delinquent federally guaranteed student loans must be brought current, paid in full, or resolved with a satisfactory payment plan between the borrower and the federal agency. The delinquency must be taken into account when analyzing the credit risk of the transaction.

Deferred Obligations

TOTAL and Manual

Deferred Obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

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Deferred obligations must be included in the Borrower's liabilities.

Required Documentation

Written documentation of the deferral of the liability from the creditor must be obtained along with evidence of the outstanding balance and terms of the deferred liability. Evidence of the actual monthly payment obligation, if available, must be obtained.

Calculation of Monthly Obligation

The actual monthly payment to be paid on a deferred liability must be used, whenever available. If the actual monthly payment is not available for installment debt, the Mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

Disputed Accounts

Accounts that appear as disputed on the borrower's credit report are not considered in the credit score utilized by TOTAL mortgage Scorecard in rating the application. An account reporting as 'Dispute Resolved, Consumer Disagrees' is considered resolved by the Credit Reporting Agency and is not regarded as an active dispute.

If the credit report utilized by TOTAL Mortgage Scorecard indicates that the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts, the Mortgage must be downgraded to a Refer and manually underwritten.

Note: FHA has clarified that the cumulative balance between all borrowers on the loan must be considered in the collective balance threshold of $1,000 or more in Disputed Derogatory Credit Accounts. Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a Refer.

Disputed Derogatory Credit Accounts include:

- Disputed charge-offs, and
- Disputed collections, and

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- Disputed accounts with late payments within the most recent 24-months
  - The 24-month seasoning for a Disputed Derogatory Credit account is based on the credit report "valid from" date.
- **Note:** Disputed charge-offs and disputed collections must be analyzed regardless of the time elapsed since the account report date
  - The 24-month seasoning period is applicable to disputed accounts with late payments only.

Calculation

Sum the account balances of any Disputed Charge-off, Disputed Collection and Disputed account with a late payment within the most recent 24 months.

- If the cumulative balance is less than $1,000, the Approve/Eligible recommendation may be followed.
- If the cumulative balance is $1,000 or greater, the loan must be downgraded to a Refer and manually underwritten.
- Exclusions from cumulative balance include:
  - Disputed medical accounts; and
  - Disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use.
    - To exclude these balances, the Mortgagee must include a copy of the police report or other documentation from the creditor to support the status of the accounts

Payoff of Derogatory Disputed Accounts

A manual downgrade may not be required when a disputed derogatory account is paid in full to a zero balance. The following documentation must be provided:

- The disputed derogatory account in question is paid in full during the loan process but prior to closing

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  - Note: Account balance(s) may not be paid down to result in an aggregate balance of less than $1,000

- Evidence of the funds used to pay the debt must be documented
- The existing credit report must be un-imported from Octane
- A new credit report must be obtained showing the disputed derogatory account paid in full to a zero balance.
  - The new credit report must be imported to Octane
- The new credit report must be used in a new TOTAL Scorecard AUS submission

Non-Derogatory Disputed Accounts

Non-derogatory disputed accounts include the following types of accounts:

- Disputed accounts with a zero balance,
- Disputed accounts with late payments aged 24 months or greater,
- Disputed accounts that are current and paid as agreed

If a borrower is disputing non-derogatory accounts or is disputing accounts that are not indicated on the credit report as being disputed, the DE underwriter is not required to downgrade the application to a Refer. However, the DE underwriter must analyze the effect of the disputed accounts on the borrower's ability to repay the mortgage. If the dispute results in the borrower's monthly debt payments utilized in computing the Debt-to-Income (DTI) ratio being less than the amount indicated on the credit report, the borrower must provide documentation of the lower payments.

Non-derogatory disputed accounts are excluded from the $1,000 cumulative balance limit.

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Foreclosures

A minimum of 3 years from the foreclosure (sheriff's) sale date to the Case Number Assignment date is required for both foreclosure and deed-in-lieu of foreclosure on AUS approved and manually underwritten transactions.

Exceptions may be allowed for a foreclosure date that is less than 3 years from the Case Number Assignment date if Extenuating Circumstances can be documented, and the Borrower has re-established good credit since the foreclosure.

Foreclosure sales dated less than 12 months from the Case Number Assignment date are ineligible.

Foreclosure on Vacant Land

Foreclosure of a borrower's vacant land (property without a dwelling) is subject to the above foreclosure guidance.

Housing Obligations/Mortgage Payment History

Mortgage Account Currently in Forbearance

A Borrower who was granted a Mortgage Payment Forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing.

If the borrower enters into a Forbearance Plan and accepts the terms of the agreement, the below requirements apply.

Mortgage Payment History
A Mortgage that has been granted forbearance, and where the borrower accepts the terms of the forbearance, must utilize the payment history in accordance with the plan in determining late housing payments. If the borrower retains the property associated with the forbearance, the plan must be terminated at or prior to closing. Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of credit underwriting.

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Documentation Requirements
Where a mortgage reflects payments under a Forbearance Plan within the 12 months prior to Case Number Assignment, the Mortgagee must obtain: • A copy of the Forbearance Plan outlining the terms of repayment; and • Evidence of the payment amount and date of payments during the forbearance term Where a mortgage reflects a possible Modification as evidenced by the credit report or the title commitment, regardless of the time period, the following documentation must be obtained: • A copy of the Modification Agreement outlining the terms of repayment.   ○ The recorded modification agreement is required if within 24 months of the TRID Application date • The Agreement must be reviewed to determine any modified interest rate, modification completion date, modified first payment due date or modified term.

Eligibility	
A borrower who was granted Mortgage Payment Forbearance is eligible for a new FHA insured mortgage provided the borrower continued to make regularly scheduled payments and the Forbearance Plan is terminated, *or*	
Transaction Type is a...	**Eligibility Requirements**
Purchase	The borrower has completed the Forbearance Plan and has made at least three consecutive monthly payments within the month due post forbearance. A borrower who has made less than 3 consecutive payments since completion of the forbearance must be downgraded to a Refer and manually underwritten.
No Cash-out Refinance	The borrower has completed the Forbearance Plan and has made at least three consecutive monthly payments within the month due post forbearance.

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	The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to mortgage Disbursement. A borrower who has made less than 3 consecutive payments since completion of the forbearance must be downgraded to a Refer and manually underwritten.
Cash-out Refinance	Loans require a Borrower who was granted mortgage payment forbearance to have: • Completed the Forbearance Plan on the subject Property; and • Made at least 12 consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments
Non-Credit Qualifying Streamline Refinance	The borrower has completed the Forbearance Plan on the subject property, and: • Has made at least three consecutive monthly mortgage payments within the month due on the mortgage since completing the Forbearance Plan; and • Has made at least six payments on the FHA-insured mortgage being refinanced (where the FHA insured Mortgage has been modified after forbearance, the Borrower must have made at least six payments under the Modification)
Credit Qualifying Streamline Refinance	A Borrower who is still in mortgage payment forbearance at the time of Case Number assignment, or has made less than three consecutive monthly mortgage payments within the month due since completing the Forbearance Plan, is eligible provided the Borrower has:

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	• Made all mortgage payments within the month due for the six months prior to forbearance; and • Had no more than one 30-Day late payment for the previous six months • Made at least six payments on the FHA-insured mortgage being refinanced (where the FHA insured Mortgage has been modified after forbearance, the Borrower must have made at least six payments under the Modification)
If a property is in forbearance and will be sold prior to our Note date, the forbearance plan must be completed and terminated prior to closing and seasoning, and payment requirements as noted above must be met. If the above requirements cannot be met, the loan must be downgraded to a Refer and manually underwritten with the exception of Cash-out refinances.	

Mortgage Account Not in Forbearance

The AUS TOTAL Scorecard can be followed for documentation requirements on housing history. A loan that has been modified that is reporting on the credit report including late payments would be assessed by TOTAL scorecard in the risk evaluation and would have to be evaluated for the late "mortgage payments" according to the AUS findings.

The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the 12 months prior to case number assignment reflects:

- Purchase and No Cash-out transactions
  - Three or more mortgage payments of greater than 30 Days; or
  - One or more late payments of 60 Days plus one or more 30-Day late payments; or
  - One payment greater than 90 Days late, or
  - The borrower has made less than 3 consecutive payments since the completion of a mortgage forbearance plan

For both Purchase and No Cash-out Refinance transactions, a Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement to be eligible for a No Cash-out Refinance.

- Cash-out transactions
    - A current delinquency; or
    - Any delinquency within 12 months of the Case Number Assignment date

A mortgage that has been modified must utilize the payment history in accordance with the modification agreement to analyze any late payments in the most recent 12 months. The payment history following the modification date may reflect late payments as long as the most recent 12 months reflect an acceptable payment history. Scorecard or Manual guidelines must be followed.

If mortgage payment does not escrow for taxes, the underwriter does not need to consider the payment history of the property taxes as part of the housing payment history.

Manual Underwriting

Loans that are manually underwritten require a 12-month housing history documented with one of the following:

- Credit report;
- Verification of rent received directly from the landlord (for landlords with no Identity of Interest with the borrower);
- Verification of Mortgage received directly from the Servicer; or
- A review of canceled checks that cover the most recent 12-month period
- If the borrower lives “rent free”, provide a letter of explanation from the property owner verifying rent free status

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Note: A mortgage that has been modified must utilize the payment history in accordance with the modification agreement to analyze any late payments in the most recent 12 months. The payment history following the modification date may reflect late payments as long as the most recent 12 months reflect an acceptable payment history.

Note: If mortgage payment does not escrow for taxes, the underwriter does not need to analyze the payment history of the property taxes as part of the housing payment history.

Inquiries

All inquiries within the past 90 days require a letter of explanation from the borrower. Any undisclosed debt resulting from the inquiries must be documented and included in the borrower's recurring monthly obligations.

Note: Credit inquiries reflecting on a non-borrowing spouse's credit report do not need to be addressed.

Installment Loans

Installment loans (excluding Student Loans) refer to loans, not secured by real estate, that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an installment loan.

The monthly payment shown on the credit report, loan agreement, or payment statement must be included to calculate the Borrower's liabilities.

Judgments

(TOTAL)

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.

Court-ordered Judgments must be resolved or paid off prior to or at closing. Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.

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Exception

A Judgment is considered resolved if the Borrower:

- Has entered into a valid agreement with the creditor to make regular payments on the debt,
- Has made timely payments for at least three months of scheduled payments, and
- The Judgment will not supersede the FHA-insured mortgage lien

A copy of the agreement must be obtained along with evidence that payments were made on time in accordance with the agreement.

The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. The Mortgagee must include the payment amount in the agreement in the Borrower's monthly liabilities and debt.

Required Documentation

The Mortgagee must provide the following documentation:

- Evidence of payment in full, if paid prior to settlement;
- The payoff statement, if paid at settlement; or
- The payment arrangement with creditor, if not paid prior to or at settlement, and
- A subordination agreement for any liens existing on the title

(Manual)

In addition to the above stated guidance, and regardless of the number of outstanding Judgments, the Underwriter must determine if the Judgment was a result of:

- The Borrower's disregard for financial obligations;
- The Borrower's inability to manage debt; or
- Extenuating circumstances

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Lease

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. It is not considered in the same manner as an installment loan because there is not a periodic payment of principal and interest.

Mortgage Assumption

When a borrower sells a mortgaged property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability.

The payment (PITIA) can be excluded as part of the borrower's recurring monthly debt obligations if the DE underwriter verifies that the property purchaser has at least a 12-month history of making regular, timely payments for the mortgage. This can be documented by obtaining:

- Evidence of the transfer of ownership
- A copy of the formal, executed assumption agreement
- A credit report indicating that consistent and timely payments were made for the assumed mortgage

If documented timely payments of the most recent, consecutive 12-month period cannot be obtained, the applicable mortgage payment must be counted as part of the borrower's recurring monthly debt obligations.

Note: In the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI. The monthly payment must be included even if the debt has been paid current and/or the forbearance canceled.

Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITIA:

- Principal and interest (P&I)
- Property, flood, and mortgage insurance premiums (as applicable)

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- Real estate taxes
- Ground rent
- Special assessments
- Owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit)
- Any subordinate financing payments on mortgages secured by the subject property

All components of the monthly housing expense must be entered on the application including other financing, P&I, property insurance, real estate taxes, mortgage insurance, homeowner's association dues, and other proposed housing expenses.

The credit report and any mortgage statement provided by the borrower must be reviewed to ensure the PITIA has been calculated correctly. If necessary, additional documentation must be obtained to verify the PITIA payment shown on the loan application is inclusive of all applicable items.

Non-Subject Property Mortgage Debt not in Borrower's Name

When a borrower is vested on the title to a property, but not on the existing mortgage, the related taxes, insurance and HOA dues (where applicable) do not need to be included in the qualifying ratios.

Non-Subject Property Evidence of Homeowner Association Dues (HOA)

If the borrower owns residential real estate other than the subject property, documentation must be provided detailing the full PITIA expenses:

- If the property has no HOA dues, a signed letter from the borrower attesting to no dues will be required. A processor certification is not acceptable
- If the property requires HOA dues, documentation clearly showing the monthly liability must be provided. Acceptable documentation may include, but is not limited to:
    - Page 1 of an appraisal completed on another lending transaction confirming the amount and frequency of the property dues, or

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- Written Attestation from the HOA confirming the amount and frequency of the property dues, or
- Verification of Homeowner's Association Dues Form
  - The homeowner's association management company may complete the form on behalf of the borrower to confirm the frequency, dues, and any other pertinent information associated with the property, or
- Redfin, Zillow, or another printout such as an MLS listing confirming the amount and frequency of the property dues
- Most recent Personal Tax Returns Schedule E evidencing the amount of maintenance annualized

  Note: A processor's certification or written verification from the borrower is not acceptable documentation to confirm monthly dues

Octane

Octane requirements for Evidence of Homeowner's Association Dues Liability will fire when it is indicated that the REO is HOA applicable by entering the HOA Fees in **Property > Expenses**. If the REO is not subject to HOA dues, the field will need to reflect zero.

Non-Subject Property Real Estate Taxes

Real estate tax amounts for non-subject properties must be evidenced utilizing one of the following documents:

- Property Tax Statement (Notice of Valuation)
- Income Tax Return Schedule E
- Form 1098
- Printout from County Tax Assessor
- Other documentation supporting property tax amount
- If taxes are escrowed, the mortgage holder's billing statement reflecting escrows

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Open 30–Day Charge Accounts

Open 30-day charge accounts require the balance to be paid in full every month.

30-day charge accounts are not required to be included in the debt-to-income ratio if verification is provided to show the borrower has paid the outstanding balance in full each month for a minimum of 12 months. Trended data on the credit report may be analyzed to determine if the full balance has been paid monthly. If the trended data does not clearly reflect a monthly payment history, 12 months of account statements must be provided.

If the credit report reflects any late payments in the last 12 months, a 5% payment based on the outstanding balance must be utilized in the borrower's monthly debt calculation for DTI. If the account is not paid in full each month, the payment shown on the current account statement, or 5% of the outstanding balance, must be utilized in the borrower's monthly debt calculation for DTI.

If the 30-day account is NOT being considered in the DTI calculation, funds to cover the account balance must be verified in addition to any funds required for closing costs and reserves. If the borrower paid off the account balance prior to closing, the DE underwriter may obtain proof of payoff in lieu of verifying funds to cover the account balance.

Accounts offering monthly payment options in lieu of paying the balance in full must be considered a revolving account and included in the borrower debt-to-income ratio.

Paycheck Protection Program (PPP)

The PPP is a loan issued by Small Business Administration lenders under the CARES Act. These loans are designed to provide a direct incentive for small businesses to keep their workers on the payroll. The underwriter should apply due diligence and review the actions of the business and any impact the current situation has had on the flow of income.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for the loan to be forgiven. If a self-employed borrower has taken out an SBA PPP loan under the CARES Act, no payment, estimated or otherwise, needs to be included in the DTI or considered in the income calculation (e.g., as a deduction from income).

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Payoff of Debt to Qualify

Payoff of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. A borrower who increases debt and then periodically uses refinance or debt consolidation to reduce payments to a manageable level presents a higher degree of risk.

- Revolving Debt
    - If the transaction is a manual underwrite, any revolving accounts being paid off to qualify must be closed.
        - A credit supplement must be provided PTA showing the revolving debt(s) closed.
        - The accounts can be paid off either prior to or at closing.
    - If the transaction is an AUS Accept, any revolving accounts being paid off to qualify do not need to be closed.
        - The accounts can be paid off either prior to or at closing.
    - Provide documentation to source the funds used to pay off the debt.
    - Verify that documentation has been provided to reflect the balance being paid off. Options include:
        - Debtor statements / printouts or other documents that outline the current balance, account number, and mailing address for the payoff funds; or
        - Credit supplements that also provide the mailing address for the payoff funds; or
        - Credit report along with other documentation providing the mailing address for the payoff funds; or

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        - Loan Quality Initiative Report; use this option with caution. When this report is used to provide an updated balance for one or more liabilities being paid in full, it will reveal current balances for *all* liabilities. The updated balance for *each* liability referenced on the LQI report must be updated in Octane.

- Installment Accounts
    - The accounts can be paid off either prior to or at closing.
    - Provide documentation to source the funds used to pay off the debt.
    - A payoff statement is required to reflect the balance being paid off.
- HELOC
    - If paid off prior to closing, provide a credit supplement showing the debt closed.
    - If paid off at closing, provide a close out letter sent to the escrow/title company.
    - Provide documentation to source the funds used to pay off the debt.

Excluding Debt

Closed-end debts do not have to be included if they will be paid off in 10 months or less from the date of closing and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

- FHA has clarified that a lease payment, even when it appears to be a "closed-end" debt with a defined number of payments, cannot be excluded from the liabilities regardless of the months remaining.

Note, when including an installment debt with payments less than 10 months remaining, the Months Left field in the **Credit > Liabilities** screen must be manually changed to greater than 10 months to ensure the monthly payment is captured in the qualifying ratios.

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Pre-Foreclosure Sales (Short Sales)

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

The Mortgagee must document the passage of three years since the date of the Short Sale. If the Short Sale occurred within three years of the case number assignment date, the Mortgage must be downgraded to a Refer and manually underwritten. This three-year period begins on the date of transfer of title by Short Sale.

Exception for Borrower Current at the Time of Short Sale

A Borrower is considered eligible for a new FHA-insured Mortgage if, from the date of case number assignment for the new Mortgage:

- All Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the Short Sale; and
- Installment debt payments for the same time period were also made within the month due

Exception for Extenuating Circumstances

The Mortgagee may grant an exception to the three-year requirement if the Short Sale was the result of documented Extenuating Circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the Short Sale.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and there was a subsequent Short Sale.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

Required Documentation

If the credit report does not indicate the date of the Short Sale, the Closing Disclosure, deed or other legal documents evidencing the date of property transfer must be obtained.

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Property Settlement Buyout

When a borrower's interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the original lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability.

If documentation to confirm the property settlement buyout (e.g. divorce decree, partnership dissolution) and to transfer of title to the property is obtained, this liability does not have to be considered as part of the borrower's recurring monthly debt obligations.

Revolving Charge/Lines of Credit

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts. They must be considered part of the borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense.

If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the DE underwriter must use $10 or 5% of the outstanding balance, whichever is greater as the borrower's recurring monthly debt obligation.

Short-Term Debt Obligations

The file should be analyzed for debts incurred from short-term (buy now/ pay later) plans such as Klarna, Affirm, or Afterpay. When such plans are identified, either through disclosure by the borrower or from loan file documentation, repayment should be treated similarly to other traditional short-term installment obligations. Refer to Undisclosed Obligations for additional information.

Documentation outlining the terms of repayment should be obtained; if the debt appears to be a long term debt, either revolving or installment, the payment must be included in the debt to income ratios.

If the repayment option is for a term of 10 months or less, the payment may be excluded if the payment does not exceed five percent of the gross monthly income and the balance will be paid in full within the 10 months; refer to Excluding Debt for additional guidance on the omission of debt. Installment debt with less than 10 months remaining may need to be considered as recurring monthly debt obligation if it significantly affects the borrower's ability to meet their credit obligations.

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Student Loans

All student loans must be included in the borrower's liabilities regardless of payment type or whether the payments are deferred.

Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer must be obtained.

The payment may be excluded from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

Calculation of Monthly Obligation

For outstanding Student Loans, *regardless of payment status*, use:

- The payment amount reported on the credit report or the actual documented payment, when the payment amount is **above zero**;
    - FHA has clarified that either the credit report or the actual documented payment must show a payment amount greater than zero. If EITHER document shows a documented payment, that payment can be used for the DTI calculation.
    - If the payment used for the monthly obligation is less than the monthly payment reported on the credit report, obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer

or,

- If no documented payment can be provided by either the credit report/supplement or documentation from the creditor or loan servicer, use 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report **is zero.**

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Exception: Where a student loan payment has been suspended in accordance with COVID-19 emergency relief, the Mortgagee may use the payment amount reported on the credit report or the actual documented payment prior to suspension, when that payment amount is above $0.

Timeshare Monthly Maintenance Fees

FHA has provided clarification that maintenance fees associated with a Timeshare property must be included in the borrower's debt-to-income ratios.

Undisclosed Obligations

Undisclosed debt is defined as any loan or liability (e.g., auto, revolving, installment, mortgage, or lease) that exists at the time the borrower closes on the subject loan and is not disclosed by the borrower during origination. Obligations to be considered as possible recurring debts and included in the DTI calculation may be identified on sources including, but not limited to:

- Credit report
- Bank account statements
- Loan Application
- Pay stubs
- Fraud Report

All discrepancies must be resolved prior to final approval. If a possible undisclosed obligation is discovered, additional documentation must be provided to support if there is an additional obligation to include in the DTI.

Examples of undisclosed obligations:

- Tax liabilities or payments
- Court ordered obligations for alimony, child support or separate maintenance
- Allotments that appear on the pay stub or Leave and Earnings Statement
- Payments on bank statement to a creditor that is not listed on the credit report
- Debts incurred from short term installment plans (Buy Now/Pay Later) such as After Pay, Klarna, Affirm, Quadpay, Sezzle, Paypal Credit, Splitit, Zip Pay, Lay Buy, Open Pay, Uplift, Upgrade, Apply Pay Later, Bread Pay SplitPay, Bread Pay, Chase Pay in Four, and Four that appear as debits on the borrower's bank statement must be considered.

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- Some Buy Now/Pay Later programs offer repayment terms extending beyond 10 months. In these cases, documentation is required to verify the payment terms.
- Examples of programs with repayment terms that do not extend beyond 10 months, and therefore do not require additional explanation or documentation, include:
    - Apple Pay Later
    - Zip
    - Bread Pay SplitPay
    - Chase Pay in 4
    - Four

Any suspected undisclosed liability must be explained and documented.

Undisclosed Non-Mortgage Debt

When a debt or obligation (other than a Mortgage) not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, the following must be completed:

- Verify the actual monthly payment amount;
- Re-submit the loan for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the borrower's debt increases by more than $100 per month; and
- Determine that any funds borrowed were not / will not be used for the borrower's MRI
- A payment history for the debt does not need to be verified.

Undisclosed Mortgage Debt

When an existing debt or obligation that is secured by a mortgage is not listed on the credit report and not considered by the AUS is revealed during the application process, one of the following that reflects an acceptable mortgage payment history is required:

- A copy of the note and either:
    - a bank statement; or
    - canceled checks;

- A credit report supplement; or
- A verification of Mortgage directly from the servicing lender

The mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:

- A current delinquency;
- Any delinquency within 12 months of the Case Number Assignment date; or
- Mortgages not reported on the credit report with any delinquency within 12 months of the Case Assignment, or more than 2x30 late pays within 24 months of the Case Assignment.

Mortgage Held in the Name of a Family Trust

When a property held in the name of a family trust is identified on the Fraud Report, additional due diligence must be performed to determine whether the related mortgage obligations are required to be included in the borrower's debt-to-income (DTI) ratio.

- If the borrower is personally obligated on any mortgage secured by the property, the associated debt and property-related obligations must be included in the DTI calculation.
- If the borrower is the grantor or creator of the trust, any mortgage debt secured by the property and any related property expenses must also be included in the DTI calculation.

Transfer of Servicing on Existing Mortgage

There are times when a mortgage has been transferred to a new servicer, but the credit report is still showing a balance with the prior lender. When this occurs, the following documentation can be provided to support the transfer and acceptable payment history with the new servicer:

- A credit supplement showing the mortgage on credit has been closed with a zero balance and an updated rating with the new servicer, or
- A transfer letter from the new servicer and evidence that the mortgage has been paid satisfactorily since the transfer of servicing.

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Employment and Income

Cardinal requires that income used to qualify meet FHA's definition of Effective Income.

For credit qualifying FHA loans, an IRS 4506-C must be executed by each borrower and tax transcripts for the most recent two (2) years filings are required.

Income stability takes precedence over job stability when analyzing the borrower's employment record to determine the probability of continued employment. Frequent job changes within the same line of work, along with continued advancement in income or benefits without a negative impact on the borrower's credit, are not a negative factor.

The below sections detail the requirements for employment and income types, if additional information is required refer to the HUD Handbook 4000.1 for further information.

Effective Income

Effective Income refers to income that may be used to qualify a Borrower for a Mortgage. The income must be reasonably likely to continue through at least the first three years of the Mortgage, and meet the specific requirements for the type of income received.

The Mortgagee must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income. The Mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

Continuity of Income

HUD determines a three-year continuance of income depending upon the type received and used for qualifying purposes. Certain income types that do not have a defined expiration date may be determined as reasonably likely to continue; refer to the individual income type within this document, or to the HUD Handbook 4000.1 for additional guidance.

Income Type	Three Year Continuance 'From' Date

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• Parsonage • Gambling • Social Security Income • Temporary Employment (if there is any indication in the file the income will not continue for the next three years) • Union Employee	Case Number Assignment Date
• Disability including Social Security Disability income and VA Disability income • Public Assistance • Employer Housing Subsidy	Application or Disclosure Mode Date
• Trust Income • Alimony, Child Support and Maintenance Income • Pension • IRA and 401(k) • Income received as a Travelling Nurse • All remaining income types where continuance is required, but a 'from' date is not defined by FHA	Note Date

Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence) in the last two years, the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document:

- The borrower has been employed in the current line of work for at least six months at the time of Case Number Assignment; and

- A two-year work history prior to the extended absence from employment using standard or alternative employment verification. An aggregate of two-years employment history must be documented.
    - Schooling may be considered as part of the documented two-year work history prior to the extended absence. Refer to guidance located in the Employment History Using Schooling section.

Gap Short in Duration

- FHA has clarified that gaps short in duration are permitted, however, a total of six months employment history in the current line of work must be documented.

Refer to the Overtime, Bonus or Tip Income or the Secondary or Part-Time Income section for additional guidance related to an interruption in employment history of less than 30-days.

Lapses in Documented Two-Year Work History

- FHA has clarified that lapses in the documented two-year work history prior to a six month gap are acceptable, however, if the two-year history contains a gap of six months or greater, an additional two-year history of employment prior to that gap will need to be verified.

Gap Due to Short-Term or Long-Term Disability

- FHA has clarified that any gap in employment, even if the borrower received compensation through short-term or long-term disability benefits or other paid leave, is considered a period of unemployment for underwriting purposes. Therefore, the borrower must have returned to work in the same line of employment for at least six months before the case number assignment.

Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:

- The Borrower intends to return to work;
- The Borrower has the right to return to work; and

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- The Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance

For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as constituting Effective Income.

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 as Effective Income. 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 as Effective 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. Refer to Calculation of Income below for additional guidance.

Required Documentation

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- A written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- Documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- Documentation of sufficient liquid assets used to supplement the Borrower's income through intended date of return to work with current employer

A verbal verification of employment must be obtained. If the employer confirms the borrower is on temporary leave the DE underwriter must consider the borrower employed.

Calculation of Income

Available Liquid Reserves

Subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.

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Number of Months of Supplemental Income

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.

Total Qualifying Income

After determining the supplemental income, the DE underwriter must calculate the total qualifying income.

Total qualifying income = supplemental income plus the temporary leave income. The total qualifying income may not exceed the borrower's regular employment income.

Example:

- Regular income amount: $6,000 per month
- Temporary leave income: $2,000 per month
- Total verified liquid assets: $30,000
- Funds needed to complete the transaction: $18,000
- Available liquid reserves: $12,000
- First payment date: July 1
- Date borrower will begin receiving regular employment income: November 1
- Supplemental income: $12,000/4 = $3,000
- Total qualifying income: $3,000 + $2,000 = $5,000

Addressing Gaps in Employment or Reduction of Income Due to COVID-19 Related Economic Event

Non-Self-Employment Income

For Borrowers with gaps in employment, reduction of income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may consider the Borrower's income calculated in accordance

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with the Exception Due to COVID-19 Related Economic Event for the applicable income type as Effective Income if it can verify and document that:

- The Borrower has been employed in the current job or same line of work for at least one month at the time of Case Number assignment; or
- The Borrower has been employed in a different job or line of work for at least six months at the time of Case Number assignment; and the Borrower has an aggregate two-year work history prior to Case Number assignment excluding gaps in employment, using traditional or alternative employment verification.

Note: Second Level review may be required for consideration of COVID-19 related income flexibilities.

Required Documentation

The following documentation is required:

Written Verification(s) of Employment (VOE) identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours.

Self-Employment Income

For Borrowers with gaps in self-employment, reduction in income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may exclude the months where the business was closed, or income was reduced when calculating Effective Income. The total time period of the Borrower's self-employment must still meet the minimum length of self-employment requirements.

Disability Income

This section does not apply to disability income that is received from the Social Security Administration. See the Social Security Income section for requirements on Social Security Disability Benefits.

Note: while Disability Income may be used as Effective Income for qualifying purposes, the length of time the borrower has received this income may not be counted toward their employment history.

The Mortgagee must verify and document the Borrower's receipt of benefits from the VA, or private disability insurance provider. The Mortgagee must obtain documentation that establishes award benefits to the Borrower.

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If any disability income is due to expire within three years from the date of the TRID application date, that income cannot be used as Effective Income. If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue. The Mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the Mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

Private Disability

For private disability benefits, the Mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, *and* one of the following documents:

- Tax Returns; or
- The most recent bank statement evidencing receipt of income from the insurance provider

Department of Veterans Affairs

The Mortgagee must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, *and* one of the following documents:

- Tax Returns; or
- The most recent bank statement evidencing receipt of income from the VA

If the Benefits Letter does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue for at least three years

Calculation of Effective Income

The Mortgagee must use the most recent amount of benefits received to calculate Effective Income.

Refer to Addressing Temporary Reduction in Income for guidance related to short-term disability benefits.

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Location of Employer

If the Fraud Report reflects the distance between the borrower's place of employment and their primary residence as within an unreasonable commuting distance, supporting documentation addressing the borrower's ability to commute must be provided.

If the borrower is working remotely, support for the ability to work in this capacity must be provided in accordance with the below guidance (applicable for Purchase transactions only):

- Regardless of time on their current job, written confirmation directly from the employer addressing the ability to work remotely must be obtained

Borrower Relocating with the Same Employer

When the borrower is relocating to a different area while remaining employed with the same employer, the stability and continuance of the income must be supported.

Verification from the employer must be provided to support the borrower will remain employed in the same capacity without a change to income or pay structure. If there will be a change in the borrower's income or pay structure, documentation addressing the change must be provided directly from the employer; further analysis may be performed by the underwriter and additional conditions may apply.

The employer must also confirm the location of the new place of employment and address any interruption to employment, if applicable.

Verbal Verification of Employment

In addition to any other income documentation requirements, a verbal verification of employment (VVOE) is required for all employed borrowers. The VVOE must be dated within 10 calendar days of closing (Note date).

Refer to Chapter 2 | Documentation Standards Lending Guide for Cardinal Financial's Verification of Employment Policy.

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Verification of Base Pay, Bonus and Overtime

Employment Related Income

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2. For all Employment related Income, the Borrower's most recent two years of employment and income must be documented.

If the borrower has been a part-time employee and now indicates that they will be full-time a written verification of employment is required.

(TOTAL)

For all Employment related Income, verify the Borrower's most recent two years of employment and income, and document using one of the following methods:

Traditional Current Employment Documentation

- Provide the most recent pay stub and a written Verification of Employment (VOE) covering two years

Alternative Current Employment Documentation

- Obtain copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
- Obtain copies of the original IRS W-2 forms from the previous two years; and
- Document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified

If alternative documentation is used, additional information from the employer may be required to provide the break out of Base, Overtime, and Bonus earnings.

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(Manual)

Traditional Current Employment Documentation

- Obtain the most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 Days) that show the Borrower's year-to-date earnings, and a written Verification of Employment (VOE) covering two years.

Alternative Current Employment Documentation

- Obtain copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
- Obtain copies of the original IRS W-2 forms from the previous two years; and
- Document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

If alternative documentation is used, additional information from the employer may be required to provide the break out of Base, Overtime, and Bonus earnings.

Past Employment Documentation

Direct verification of the Borrower's employment and income history for the previous two years is not required if all of the following conditions are met:

- The current employer confirms a two-year employment history or the paystub reflects a hiring date
- Only base pay is used to qualify (no Overtime, Bonus, or Tip Income)
- The Borrower executes IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-C, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two tax years. Refer to the Tax Documentation Policy located in Chapter 2 | Documentation Standards for additional guidance.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

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- W-2(s)
- Written VOE(s)
- Evidence supporting enrollment in school or the military during the most recent two full years

Employment History Using Schooling

When a borrower with less than a two-year employment history has been enrolled in school (or relevant training), the experience may be considered as part of the borrower's employment history. Online or physical attendance is acceptable. In all cases, a two-year combined history of education and employment must be documented.

Examples of acceptable education or training include:

- Secondary Education (High School)
- GED programs
- Trade or Vocational school
- College
- University
- Public, charter, home, or private schools
- Online courses, certifications, or other professional credentials that create enhanced employment opportunities

While the specifics may vary from a training provider, education source, or school, the documentation related to verifying a borrower's training or education must contain:

- The school or provider's name
- The borrower's full name supporting he/she is the enrolled attendee
- Enrollment period
    - Date the student was first enrolled
    - Date the student exited the program or completed the program
    - Graduation date, if applicable, if documentation type is associate's, bachelor's, master's, doctoral, or other postgraduate degree

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Base Income Calculation

The underwriter must calculate the borrower's base income and compare it to the borrower's year-to-date income and previous year's income (if applicable) to determine if the income is consistent.

Pay Interval	Calculation
Hourly	(Hourly gross pay x average # of hours worked per week x 52 weeks) / 12
Weekly	(Weekly gross pay x 52 pay periods) / 12
Biweekly	(Biweekly gross pay x 26 pay periods) / 12
Twice Monthly	Twice monthly pay X 2 pay periods
Monthly	Use gross monthly payment amount
Annually	Annual gross pay / 12

For employees who are paid hourly and whose hours do not vary, the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income. For employees who are paid hourly and whose hours vary, the Mortgagee must use the average of the income over the previous two years.

If the Mortgagee can document an increase in pay rate the Mortgagee may use the most recent 12-month average of hours at the current pay rate.

Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate. For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- The average of the income in accordance with the Hourly Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- The average of the income earned since the COVID-19 Related Economic Event.

Second Level review may be required for consideration of COVID-19 related income flexibilities.

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Overtime, Bonus, or Tip Income

Overtime, Bonus, or Tip income refers to income that the borrower receives in addition to the normal salary. Overtime, Bonus, or Tip income may be used as Effective Income if the borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime, Bonus, or Tip income less than two years may be considered Effective Income if documentation is provided showing it has been consistently earned over a period of not less than one year and is reasonably likely to continue.

When evaluating whether the income has been 'consistently earned', the underwriter should take into consideration the borrower's history of receipt, whether there are any lapses in earnings, and if the income can be considered stable for qualifying purposes.

If a borrower has experienced a lapse of income from Overtime, Bonus or Tips within a two year period, a signed letter from the borrower addressing the lapse must be provided. Generally, an interruption in earnings may not have occurred within the last 12 months*, should be limited to a single occurrence and may not have lasted for a period greater than 30 days.

*A minimum of one year receipt of income must be documented. If a lapse has occurred which results in a history of less than one year, additional employment history must be documented to support receipt of this income type for a period of no less than 12 months.

The period of time where earnings were not received should be attributed to the compensation not being offered by the employer and due to reasons outside of the borrower's control. The borrower must have resumed earnings consistent with the amount of prior earnings. Acceptable circumstances which could result in a lapse in earnings from Overtime, Bonus or Tip may include, but are not limited to, the following:

- The employer experiences a temporary closure, and the borrower is paid base wages without additional compensation during that time.
- Borrower begins with a new employer and additional compensation is available, but not paid during a 'probationary period.'
- Borrower took extended personal leave, or sick time (information of a medical nature may not be retained in the file).

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- Equipment downtime or maintenance reduced the available work.
- Borrower moved into a new position that required training at regular hours

If the borrower has recently changed positions with their employer, a careful analysis of any overtime or bonus should be made to ensure whether it will continue in the future.

Calculation of Effective Income

For employees with Overtime, Bonus, or Tip Income, the underwriter must calculate the Effective Income by using the **lesser** of:

- The average Overtime, Bonus, or Tip Income earned over either:
  - The previous two years; or
  - The length of time Overtime, Bonus, or Tip income has been earned if less than two years; or
- The average Overtime, Bonus, or Tip income earned over the previous year.

FHA has provided additional clarification regarding the calculation of Overtime, Bonus, or Tip income in the following example:

- The borrower applies for a mortgage loan in December 2025 and has been employed in the current position since 2022. The borrower has received Overtime, Bonus, or Tip income for:
  - 12 months in 2023
  - 12 months in 2024
  - 11 months in 2025 (Year-to-Date)
- In this scenario, qualifying income should be calculated as follows:
  - Average income over 2023, 2024, and YTD 2025, using a total of 35 months.
  - Average income over 2024 and YTD 2025 only, using a total of 23 months.
- The qualifying income is the **lower** of these two averages.

Note: While FHA requires a minimum 24-month history of Overtime, Bonus, or Tip income for qualifying purposes, lenders may use a longer history when available. Year-to-Date earnings can be included in the calculation as long as the calculation is reasonable and well-supported.

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Documentation Required

For Overtime, Bonus, or Tip income, the underwriter must use traditional or alternative employment documentation. If alternative documentation is used, additional information from the employer may be required to break out Base, Overtime, Bonus, and/or Tip earnings.

- Note: If the tip income, or not all of the tip income is not reflected on the pay stubs and W-2's, the signed federal income tax returns with Form 4137 are required to document the additional tip income not reported to the borrower's employer.

Exception Due to COVID-19 Related Economic Event

For employees with Overtime, Bonus or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- The average of the income in accordance with the Overtime, Bonus or Tip Income Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- The average Overtime, Bonus or Tip Income earned since the COVID-19 Related Economic Event

Newly Employed Borrower

For borrowers who have recently started employment with a new employer and have been on the new job less than 6 months, the below requirements apply. Borrowers changing from 1099 or self-employment to a W-2 position must also adhere to this guidance.

In addition to AUS requirements, the following must be provided:

- A Standard Verification of Employment (VOE) with income from TheWorkNumber, or

- Documentation reflecting the borrower has enrolled in direct deposit with the new employer and evidence to show the receipt and regular deposit of the net pay from the pay stubs

  Note: If either of the above requirements can be met, the underwriter may review and approve the income without an exception request.

If a Standard VOE from TheWorkNumber cannot be obtained, or if the borrower has not enrolled in direct deposit with the new employer, the following documentation must be provided:

- Provide documentation from the employer showing payroll dates, and

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- Provide copies of pay stubs* for six months, and
- Provide actual bank statements for the 6 month time period to show the receipt and regular deposit of the net pay from the pay stubs. Deposit dates must coincide with payroll dates as documented above.

If the borrower has been on the job less than six months and a Standard VOE from TheWorkNumber cannot be obtained, or if the borrower has not enrolled in direct deposit with the new employer, an exception request may be submitted to the Credit Committee for review.

Please note: These guidelines may not apply to a Seasonal or Union worker whose employment typically changes periodically. Refer to Seasonal Employment / Seasonal Unemployment and Union Employee(s) for additional guidance.

*Pay stubs from the employer should show standard payroll deductions as required by law. Deductions include but are not limited to:

- Federal Income Tax
- State Income Tax
- Social Security (FICA)
- Medicare Tax (FICA)
- Insurance Policies
- Retirement

Borrower Converting from 1099 to W-2 With Same Employer

If a borrower has previously been working for an employer being paid on a 1099 but converts to a W-2 wage earner, the following additional documentation is required:

- W-2 wages must have been received for a minimum of 6 months as documented with 6 months complete pay stubs, and

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- Provide actual bank statements for the 6 month time period to show the receipt and deposit of the net pay from the pay stubs.
- Exceptions to the full 6 month time frame may be granted for some professions. Please submit a Credit Committee Loan Review for full review.

Alimony, Child Support and Maintenance Income

Alimony, Child Support, and Maintenance Income refer to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependents.

Documentation Required

The Mortgagee must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt. If there is not a finalized legal agreement, the income cannot be used to qualify.

When using a final divorce decree, legal separation agreement or court order:

- Obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

When using a voluntary payment agreement:

- Document the voluntary payment agreement with 12 months of canceled checks, deposit slips, or tax returns.

Continuance of Income

The Mortgagee must provide evidence that the claimed income will continue for at least three years from the Note date.

Documentation may not always provide for a defined end date for the receipt of child support income. Although laws vary from state to state, the following guidance may be applied in most cases.

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Unless a minor is emancipated, child support typically continues until the child is 18 years of age (or has reached the age of majority), or has completed high school, whichever is later. In some cases, the court may order child support to continue after age 18 for a disabled child who remains a dependent.

Calculation of Effective Income

- When using a final divorce decree, legal separation agreement, or court order:
  - If the Borrower has received consistent Alimony, Child Support, and Maintenance Income for the most recent three months, the underwriter may use the current payment to calculate Effective Income
- When using evidence of voluntary payments
  - If the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income
- If the Alimony, Child Support, and Maintenance Income have not been consistently received for the most recent three months if court ordered, or six months if voluntary, the underwriter must use the average of the income received over the previous two years to calculate Effective Income.
- If Alimony, Child Support, and Maintenance Income have been received for less than two years, the underwriter must use the average over the time of receipt.

Automobile Allowance

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two years.

Documentation Required

Provide:

- A Written Verification of Employment evidencing the amount and the likelihood of continuance, and

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- The borrower's most recent pay-stub showing the automobile allowance and the amount

Calculation of Effective Income

The underwriter must use the full amount of the Automobile Allowance to calculate Effective Income.

Boarder Income

Boarder refers to an individual renting space inside the borrower's dwelling unit (a renter of an ADU is not a Boarder).

Rental Income from Boarders may be considered Effective Income if the occupying Borrower has a 12-month history of receiving income from Boarders and is currently receiving Boarder income.

Rental Income from Boarders is permitted whether the Borrower currently rents or owns the Dwelling Unit.

Required Documentation

Verify and document the existing Rental Income from Boarders by obtaining the following:

- Evidence of rental history over the previous 12 months;
- Evidence of Rental Income received from Boarders for at least nine of the most recent 12 months in the form of:
    - The Borrower's Tax Returns; or
    - Bank statements, canceled checks, or deposit slips, showing rental payments received;
- Evidence that the Boarder's address is the same as the Borrower's address (i.e. Government issued ID, recent utility or cell phone bill, tuition invoice/bill, car insurance premium documentation); and
- A copy of the executed written agreement documenting the boarding terms and the Boarder's intent to continue boarding with the Borrower
    - A lease is not required; if a lease is provided, no additional written agreement is required
    - The written agreement does not have a required format or terms

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Calculation of Effective Income

Calculate Rental Income from Boarders by using the lesser of:

- The 12-month average; or
- The current rent as documented in the written agreement

Where Rental Income from Boarders has been documented for at least nine of the last 12 months, the Rental Income must be averaged over a 12-month period.

The amount of the Rental Income from Boarders used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower(s).

- A 25% vacancy factor is not applied to boarder income

Capital Gains Income

Generally, income received from capital gains is not an acceptable source of qualifying income. Capital gain income is generally a one-time transaction.

Borrowers who have significant asset portfolios may have to show capital gains on their federal income tax returns. To use capital gains as qualifying income the DE underwriter must document and calculate the income as follows:

- Document a two-year history of receipt of capital gains by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.

- Develop an average income from the last two years.

- Use the averaged amount as part of the borrower's qualifying income so long as the borrower provides current evidence that he or she owns additional property or assets that can be sold to generate capital gains in the future. For example, brokerage account statements, non-retirement accounts, or proof of substantial real estate holdings not being used to qualify rental income.

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Commission Income

Commission Income may be used as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

If the borrower has recently changed employers and is being paid on a commission basis, the borrower's history of earnings must be analyzed to support that the income has been received from a similar source and will continue in the same capacity. An average of past earnings in determining qualifying income may be prudent. To permit the use of these earnings, a Loan Review must be submitted for review.

Calculation of Effective Income

Commission earnings are considered variable income and as such, are typically averaged over a period of time.

The underwriter must calculate Effective Income for Commission by using the ***lesser*** of either:

- The average Commission Income earned over either:
  - The previous two years; or
  - The length of time Commission Income has been earned if less than two years; or
- The average Commission Income earned over the previous year

FHA has provided additional clarification regarding the calculation of commission income in the following example:

- The borrower applies for a mortgage loan in December 2025 and has been employed in the current position since 2022. The borrower has received commission income for:
  - 12 months in 2023
  - 12 months in 2024
  - 11 months in 2025 (Year-to-Date)
- In this scenario, qualifying income should be calculated as follows:
  - Average income over 2023, 2024, and YTD 2025, using a total of 35 months.
  - Average income over 2024 and YTD 2025 only, using a total of 23 months.

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- The qualifying income is the **lower** of these two averages.

Note: While FHA requires a minimum 24-month history of commission income for qualifying purposes, lenders may use a longer history when available. Year-to-Date earnings can be included in the calculation as long as the calculation is reasonable and well-supported.

Documentation Required

For all Commission Income, the underwriter must use traditional or alternative employment documentation. If alternative documentation is used, additional information from the employer may be required to provide the breakout Base and Commission earnings.

Note: Tax returns are not required for commissioned borrowers.

Exception Due to COVID-19 Related Economic Event

For employees with Commission Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- The average of the income in accordance with the Commission Income Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- The average of the Commission Income earned since the COVID-19 Related Economic Event

Second Level review may be required for consideration of COVID-19 related income flexibilities. related to income.

Employer Housing Subsidy

Employer Housing Subsidy refers to employer-provided mortgage assistance. An employer housing subsidy may be utilized as Effective Income.

The existence and the amount of the housing subsidy must be documented. For employees receiving the subsidy, the amount may be added to the total Effective Income, but you may not use it to offset the Mortgage Payment.

Evidence of three-year continuance from the date of the mortgage application must be provided.

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Expected Income

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement income (including Social Security or other fixed income) that has not been, but will be received within 60 Days of mortgage closing (Note date).

TOTAL and Manual

Expected Income may be considered as Effective Income except when Expected Income is to be derived from a family-owned business or an interested party to the transaction.

Required Documentation

The existence and amount of Expected Income must be documented and verified with the employer in writing and that it is *guaranteed* to begin within 60 Days of mortgage closing (Note date).

- Guaranteed is defined as: All contingencies have been removed from the employment contract prior to loan closing.
    - Examples of contingencies include drug tests, background checks, schooling completion, etc.

Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. It must be verified that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

Expected Income from Cost of Living Adjustment (COLA)

To assist individuals keep up with the changing cost of living, beneficiaries of Social Security benefits and Supplemental Security Income (SSI) payments often receive an annual cost of living adjustment (COLA).

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If the borrower's eligibility for the expected increase can be documented, the increase may be applied to the qualifying income prior to the date of the adjustment; the adjustment must be received by the borrower within 60-days of the Note date.

For example, Social Security benefits and Supplemental Security Income (SSI) payments will increase by 2.8% for the year 2026. The additional 2.8% increase may be used for qualification on loans closed prior to 2026 if eligibility can be documented and the receipt of the benefit will occur within 60 days of the Note date.

Note: a paystub will *not* need to be obtained prior to loan delivery for COLA Increases.

Expected Income from Retirement Income

For expected Retirement Income, the amount must be verified and is guaranteed to begin within 60 Days of the mortgage closing defined as the Effective Note Date.

Documentation must be provided confirming:

- The Retirement Income application or eligibility has been confirmed, and
- The anticipated monthly gross retirement income amount, and
- The first payment date of retirement income payment

Note: a paystub will *not* need to be obtained prior to loan delivery for Retirement Income.

Expected Income from Commission Earnings

Expected income from commission earnings may be considered if the requirements for Commission Income along with guidance within this section, can be met. The expected income from this source must be guaranteed in writing from the borrower's employer.

To permit the use of these earnings, a request must be submitted to Credit Committee for approval.

Family Employment

Family Employment or Family-Owned Business Income refers to income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner. Income may be considered as Effective Income if the Borrower is not an owner in the family-owned business.

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Required Documentation

Verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage. Official business documents include corporate resolutions or other business organizational documents, business tax returns or Schedule K-1(IRS Form 1065), U.S. Return of Partnership Income, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, copies of the most recent one or two-year signed personal tax returns (based on AUS feedback) or tax transcripts are required.

The underwriter must closely review all documentation to ensure the income used for qualifying is supported. The underwriter should consider the following when analyzing borrowers employed by family:

- Any increase or decrease in wages
- Type of income earned (i.e. salary vs. commission or bonus)
- Borrower's current versus prior years earnings
- Borrower's history of employment in their current line of work
- Consistency between rate of pay displayed on pay stubs and deposits into the borrower's bank account(s)
- Borrower's time employed by the family-owned business

Any inconsistencies should be thoroughly addressed and any supporting documentation must be provided in the loan file.

Time Employed by Family

Borrowers must be employed by family for a minimum of six months; a loan exception is required for borrowers employed by family less than six months.

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Calculation of Effective Income

Salary

For employees who are salaried and whose income is likely to continue to be consistently earned, the current salary must be used to calculate Effective Income.

Exception Due to COVID-19 Related Economic Event

For employees who are salaried and whose income will likely be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

Hourly

For employees who are paid hourly, and whose hours do not vary, the Borrower's current hourly rate may be considered to calculate Effective Income. For employees who are paid hourly and whose hours vary, the income must be averaged over the previous two years. If an increase in pay rate can be documented, the most recent 12-month average of hours at the current pay rate may be used.

Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- The average of the income in accordance with the Hourly section above for the time period prior to the COVID-19 Related Economic Event; or
- The average of the income earned since the COVID-19 Related Economic Event

Second Level review may be required for consideration of COVID-19 related income flexibilities.

Farm Income

Farm income may be used if it is not from the subject property. The borrower's last two years personal and/or business tax returns are required along with Schedule F. The farm income is analyzed as business income and depreciation may be added back. If the farm income is from the subject property, the loan is

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ineligible for financing. Fannie Mae Form 1084 or Freddie Mac Form 91 can be used to calculate the Schedule F.

Foreign Income

Foreign Income refers to income received by a Borrower from sources located outside of the United States by a foreign corporation or a foreign government and is paid in foreign currency.

The Mortgagee may use Foreign Income as Effective Income if the Borrower has received this income for the previous two years and it is reasonably likely to continue.

Required Documentation

The Mortgagee must obtain complete individual federal income tax returns showing Foreign Income for the most recent two years, including all schedules.

For all Foreign Income, the Mortgagee must satisfy Standard Documentation Requirements in accordance with the requirements listed based on source and type of income. If the Foreign Income documents are not received in English, the Mortgagee must provide a complete and accurate translation for each document and convert foreign currency to U.S. dollars.

Calculation of Effective Income

The Mortgagee must analyze the Borrower's U.S. Federal tax returns to determine gross Foreign Income. The Mortgagee must average the Foreign Income over the previous two years to calculate Effective Income.

Foster Care

Income received from a state or county-sponsored organization for providing temporary care for children may be considered as acceptable income provided:

- The Borrower has a two-year history of providing foster care services and receiving foster care payment income and,
- The foster care payment income is reasonably likely to continue

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Required Documentation

The Mortgagee must obtain a written verification of foster care payment from the organization providing it, verify and document that the Borrower has a two-year history of providing foster care services and receiving foster care payment, and that the foster care payment is reasonably likely to continue.

Calculation of Effective Income

The Mortgagee must calculate foster care payment by using the lesser of:

- Average foster care payment received over the previous two years; or
- Average foster care payment received over the previous year

Gambling Income

Gambling winnings may be considered as acceptable income provided it is regularly received by the borrower and expected to continue.

Documentation

- Two years' most recent tax returns reflecting gambling winnings. Gambling losses as itemized on Schedule A must be taken into consideration when determining qualifying income.
- A three-year continuance of the income from the date of Case Number Assignment, (such as the borrower claiming a casino annuity) must be documented.

Income from a Cannabis-Related Business

The Mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns.

Since cannabis activity (even if state-licensed) is not legally recognized on a federal level, income generated from business activity directly related to the production or distribution of cannabis (or marijuana), or products containing cannabis, may not be considered in loan qualification.

If the borrower has ownership in a cannabis-based business that manufactures, distributes, or dispenses cannabis, any income or assets from that business cannot be considered in the loan qualification.

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Income from Individual Retirement Account (IRA) and 401(k)

The Mortgagee must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years from the Note date.

Required Documentation

Obtain the most recent IRA/401(k) statement and any one of the following documents:

- Tax Returns; or
- The most recent bank statement evidencing receipt of income

Calculation of Effective Income

- For Borrowers with IRA/401(k) Income that has been and will be consistently received, use the current amount of IRA Income received to calculate Effective Income.
- For Borrowers with fluctuating IRA/401(k) Income, use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income.
- If IRA/401(k) Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

Interest and Dividend Income

Interest and Dividend income may be used as qualifying income if the borrower can document ownership of assets to support the level of interest and dividend income being utilized along with the continuance of the income for at least three (3) years.

Document a two-year history of receipt of the income with both:

- Copies of the past two years signed federal tax returns
- Copies of account statements supporting the interest and dividend income

Develop an average of the income received for the most recent two years.

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Subtract any assets used for down payment or closing costs from the borrower's total assets and calculate the expected future interest or dividends.

Employment/Income Verification

Active Duty Military

If the borrower's active duty release date or the end of the contract term is within 12 months of the closing date, obtain any of the following:

- Document re-enlistment date beyond the 12-month period from the closing.
- A statement from the service member that he/she intends to reenlist or extend his/her period of active duty to date beyond the 12-month period plus a statement from his/her commanding officer confirming the service member is eligible to reenlist or extend his/her active duty and that there is no reason reenlistment or extension of active duty will not be granted.
- Verification of a valid offer of local civilian employment following the release from active duty.
- Documentation of strong mitigating factors such as >10% down payment, significant cash reserves, and evidence of strong ties to the community with adequate non-military spouse income so that only minimal income is needed from the active duty service member to qualify.
- A statement from the service member that he/she intends to reenlist or extend his/her period of active duty to date beyond the 12-month period plus a statement from his/her commanding officer confirming the service member is eligible to reenlist or extend his/her active duty and that there is no reason reenlistment or extension of active duty will not be granted.

Allowances on LES

A Leave and Earnings Statement (LES) is required.

Basic Allowances

Non-taxable basic allowances may be used as qualifying income such as quarters (BAH), subsistence (BAS), and clothing. Military education benefits may not be considered as income.

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The borrower's military Leave and Earnings Statement (LES). The Mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

Flight Pay, Overseas Pay, Combat Pay

Other taxable allowances that may be used as qualifying income include flight, hazard pay, pro-pay, overseas pay, and combat pay. These sources may be used as qualifying income if the amount and a history of receipt can be documented along with verification that the continuance is consistent with the nature of the service member's duties (e.g. flight pay for a pilot).

Voluntary Separation (VSI)

Voluntary Separation Incentives (VSI) are paid annually and are taxable in the year of receipt. VSI payments may be used as qualifying income. The term of the payment period is calculated by multiplying the service member's years of service times two.

Reserve/National Guard

The borrower must indicate whether his/her full-time employment is likely to be impacted by their participation in the Reserves/National Guard. If the borrower's If Reserve/National Guard income is likely to continue based on the length of service, then this income may be used to qualify.

If continuance is not likely, the income may be considered a compensating factor only.

For recently activated Reserve/National Guard, document the borrower's income upon unit activation and the duration of the temporary assignment. If the borrower's income will be reduced by leaving their current job, carefully evaluate the impact on the borrower's ability to repay the loan as well as manage their current expenses.

The borrower must certify property will continue to be their Primary Residence if the temporary assignment will be completed within the first year after the origination of the mortgage loan.

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VA Benefits

VA benefits must be documented by a copy of the veteran's last benefits letter showing the amount of the assistance, and one of the following documents:

- Federal tax return; or
- Most recent bank statement evidencing receipt of income from the VA

If the benefits letter does not have a defined expiration date, the DE underwriter may consider the income effective and likely to continue for at least three years.

VA Educational Benefits may not be used as qualifying income or to offset student loan payments.

Non-Taxable Income

Cardinal Financial's lending policy provides special consideration to regular sources of income that may be nontaxable.

The underwriter must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, income tax returns, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the lender may develop an "adjusted gross income" for the borrower by adding a percentage of the nontaxable portion of the income to the borrower's qualifying income. Non-taxable income may be grossed up only to calculate the debt ratio and not for the residual income calculation.

The percentage of Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, the Mortgagee may gross up the Non-Taxable Income by 15 percent.

The following non-reportable income may be grossed up:

- Some portion of Social Security Income;
- Some federal government employee Retirement Income;

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- Railroad Retirement benefits;
- Some state government Retirement Income;
- Certain types of disability and Public Assistance payments;
- Child Support;
- Section 8 Homeownership Vouchers;
- Spousal Support;
- Military allowances; and
- Other income that is documented as being exempt from federal income taxes

Notes Receivable

TOTAL and *Manual*

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

Required Documentation

The Mortgagee must verify and document the existence of the Note. The Mortgagee must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips, or canceled checks and that such payments are guaranteed to continue for the first three years of the Mortgage.

Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Mortgagee must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the Mortgagee must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

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Parsonage Housing or Income

Parsonage housing or income may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years from the date of Case Number Assignment.

- Verify the housing or parsonage income with a letter of verification from the entity paying the allowance
- Document proof of receipt for the last 12 months via direct deposits, copies of checks, or through payroll adjustments on the borrower's pay stubs

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

Pension

Pension refers to income received from the Borrower's former employer(s).

Required Documentation

Verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years from the Note date.

The Mortgagee must obtain any one of the following documents:

- Tax Returns; or
- The most recent bank statement evidencing receipt of income from the former employer; or
- A copy of the Borrower's Pension/retirement letter from the former employer

Calculation of Effective Income

The Mortgagee must use the current amount of Pension income received to calculate Effective Income.

Per Diem Earnings

FHA has clarified Per Diem pay is not an eligible income source and may not be used. For guidance on automobile allowance, refer to the Automobile Allowance section.

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Profit Sharing

Profit sharing is an eligible source of income if paid in the form of a cash bonus, is reported as taxable income, has been received for two years and the employer verifies that it is likely to continue.

Profit sharing is an ineligible source of income if it is paid in the form of company stock or shares, or as a contribution to a retirement plan, also known as a deferred profit sharing plan.

Public Assistance

Public Assistance refers to income received from government assistance programs.

- Income received from the Government Agency must be verified and documented.
- If any Public Assistance income is due to expire within three years from the date of the mortgage application, that income cannot be used as Effective Income.
- If the documentation does not have a defined expiration date, the income may be considered effective and reasonably likely to continue.
- Use the current rate of Public Assistance received to calculate Effective Income.

In Home Supportive Services (IHSS)

Income generated from state-sponsored programs, such as In Home Supportive Services (IHSS) can be considered Effective Income if supported by the following:

- The most recent paystub, and
- A written Verification of Employment (VOE) or W-2's supporting a two year history of receipt

If income is due to expire within three years from the date of the mortgage application, the income cannot be used as Effective Income.

Section 8 Homeownership Vouchers

Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

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Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Mortgagee may consider that this income is reasonably likely to continue for three years from the TRID Application date.

Calculation of Effective Income

The Mortgagee may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

Restricted Stock Units (RSU)

- Although not referenced in the HUD Handbook 4000.1, FHA will not permit income from Restricted Stock Units.

Royalty Payments

FHA has clarified that income from Royalties may be included as effective income.

Provide the following to support the use of the income:

- A 24-month history of receipt documented with two years most recent tax returns,
- Royalty contract, statement or lease agreement confirming amount, frequency and duration of payment eligibility, and
- Evidence of continuance of the income for at least 3 years from the Note date

Income should be calculated using the average of income earned over the previous two years. If the contract provided reflects a lesser amount than a two-year average, the reduced amount should be used for qualification.

Seasonal Employment / Seasonal Unemployment

TOTAL and Manual

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job. Employment Income from Seasonal Employment may be

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considered as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season.

Seasonal unemployment benefits are payments made by the state or other jurisdiction to borrowers during seasonal layoffs. The Mortgagee may consider unemployment income as Effective Income for those individuals with Effective Income from Seasonal Employment.

Required Documentation

- For seasonal employees with unemployment income, the unemployment income for two full years must be demonstrated with the following documentation and there must be reasonable assurance that this income will continue.
  - Verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two years;
  - Verify that the seasonal unemployment compensation is reported on the borrower's signed federal income tax returns;
  - Verify that the seasonal unemployment compensation is reported on the corresponding personal tax return Record of Account or personal income tax return transcripts;
  - Verify that the borrower is currently receiving unemployment compensation associated with seasonal layoffs if the borrower is not currently employed with the seasonal employer;
  - If currently employed, document seasonal employment per AUS requirements;
  - If not currently employed with the seasonal employment, confirm with the borrower's employer using a standard Verification of Employment that there is a reasonable expectation that the borrower will be rehired for the next season.

Calculation of Effective Income

- For employees with Employment Income from Seasonal Employment, the Mortgagee must average the income earned over the previous two full years from both the seasonal employment AND unemployment to calculate Effective Income.

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- When a borrower's employee income from a seasonal employer has decreased, but the unemployment for the same time period has increased, consideration is provided to the reason for the seasonal employment income decline. The income from the seasonal employment income will be averaged as will the unemployment income to develop an average for both income sources and provide fair consideration for the declining income source.

Secondary or Part-Time Income

TOTAL and Manual

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week. The Mortgagee may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

When evaluating whether the income stream can be considered uninterrupted, the underwriter should take into consideration the borrower's history of receipt, whether there are any gaps in employment, and if the income can be viewed as stable for qualifying purposes.

If a borrower has experienced a gap of employment* within a two-year period, a signed letter from the borrower addressing the gap must be provided. Generally, the gap may not have occurred within the last 12 months, should be limited to a single occurrence, and may not have lasted for a period greater than 14 days.

*A minimum of two years receipt of income must be documented. If a gap results in a history of less than two years, additional employment history must be documented to support receipt of this income type for a period of no less than 24 months.

The period of time where earnings were not received should be attributed to the compensation not being offered by the employer and due to reasons outside of the borrower's control. Acceptable reasons for an interrupted history of earnings may include, but are not limited to, the following examples:

- Lapse from the end date of the previous employment to the start date of the new employment was due to reasons outside of the borrower's control;
- Employer only begins new hires during scheduled onboarding groups;

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- The borrower gives a two-week notice to their former employer, which is not accepted, and waits to begin with the new employer;
- There is an extended holiday preventing the borrower from beginning with the new employer;
- The new employer requires background checks or screenings that delay the start date;
- The borrower must complete licensing requirements, which causes a delay in starting with the new employer;
- Borrower is relocating and took time between jobs to accommodate a move

A borrower may have a history that includes different employers, which is acceptable as long as the income has been consistently received.

Calculation of Effective Income

- The Mortgagee must average the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use a 12-month average of hours at the current pay rate.

Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income. For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- The average of the income in accordance with the Calculation of Effective Income section above for the time period prior to the COVID-19 Related Economic Event; or
- The average of income earned since the COVID-19 Related Economic Event

Self-Employed Income

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest. There are four basic types of business structures; they include:

- Sole proprietorship;
- Corporations;
- Limited liability or "S" corporations; and

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- Partnerships

Minimum Length of Self-Employment

Income from Self-Employment may be considered if the Borrower has been self-employed for at least two years. If the Borrower has been self-employed between one and two years, the income may only be considered as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is now self-employed, or in a related occupation for at least two years.

Self-Employed Business no Longer Open and Operational

When a self-employed business is not disclosed, but is identified on the tax returns, Fraud Report, or other documentation, and that business has closed or has changed ownership, evidence must be provided that the entity is no longer open and operational.

Acceptable documentation may include:

- Business Dissolution documents such as Articles of Dissolution or Certificate of Cancellation
- State or Local Business Closure Notice
- Public Notices or Bankruptcy Filings (If Applicable)
- Confirmation from Relevant Licensing Authorities
- Final Tax Return(s), or
- Proof of business sale

If evidence cannot be provided that the business is no longer in an active status, tax returns may be required and any loss experienced may need to be included in the qualifying ratios.

Stability of Self-Employment Income

(TOTAL)

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the loan must be downgraded and manually underwritten.

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(Manual)

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must document that the business income is now stable.

Income may be considered stable after a 20 percent reduction if it can be documented:

- The reduction in income was the result of an Extenuating Circumstance,
- The Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and
- The Borrower qualifies utilizing the reduced income

Secondary Source of Employment from a Self-Employed Business

If the borrower's secondary source of employment is from a self-employed business, two years of tax returns and validated transcripts must be obtained. If earnings from the business result in a loss, that loss must be counted in the qualifying ratios. If the earnings from the business have declined more than 20 percent, a manual downgrade is not required since the loss has been considered and self-employment is not the borrower's primary employment or source of income.

Exception Due to COVID-19 Related Economic Event

The Mortgagee may consider self-employment income if the Borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling two years.

If the Borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed, or in a related occupation for at least two years.

For self-employed Borrowers with a COVID-19 Related Economic Event that have since regained income at a level *less than* 80 percent of their income prior to the COVID-19 Related Economic Event, the Mortgagee must downgrade and manually underwrite.

Note: Second Level review may be required for consideration of COVID-19 related income flexibilities.

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Required Documentation

Individual and Business Tax Returns

Complete individual federal income tax returns for the most recent two years, including all schedules, must be obtained.

The Mortgagee must obtain the Borrower's business tax returns for the most recent two years unless the following criteria are met:

- Individual federal income tax returns show increasing Self-Employment Income over the past two years;
- Funds to close are not coming from business accounts; and
- The Mortgage to be insured is not a Cash-out refinance

In lieu of signed individual or business tax returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-C, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and tax transcripts directly from the IRS.

Refer to the Tax Documentation Policy located in Chapter 2 | Documentation Standards for additional guidance.

Profit & Loss Statements and Balance Sheets

A year-to-date Profit and Loss (P&L) statement and balance sheet must be obtained if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two-year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

If the income from the YTD P&L has declined, only that average should be used in qualifying. Further, if the monthly average income from the P&L has a greater than 20% decline from the monthly average of income from the tax return analysis, the loan should be manually downgraded.

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Audited Profit and Loss Statement | Definition

An audited profit and loss statement involves a thorough review of each and every item on the financial statement.

- It entails internal protocol testing to ensure money moves about the company in a manner that is reflected in the statement,
- An audited profit and loss statement is proof the financial statements are fully accurate,
- Only a Certified Public Accountant (CPA) can prepare an audited financial statement,
- The CPA must state that the financial statement is Audited and meets generally accepted accounting principles (GAAP),
- An audited profit and loss statement is NOT a compiled or reviewed report.

Exception Due to COVID-19 Related Economic Event

For self-employed Borrowers with a reduction of income due to a COVID-19 Related Economic Event, the Mortgagee must provide the following documentation in addition to the current Self Employment Income Required Documentation:

- Letter of explanation for the time period of income loss or reduction;
- The Borrower's business tax returns for the most recent two years (refer to the Calculation of Effective Income section below for when additional years tax returns may be required); and
- Either of the following:
    - An audited year-to-date P&L statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or
    - An unaudited year-to-date P&L statement signed by the Borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date, and three of the most recent business bank statements no older than the latest three months represented on the year-to-date P&L statement. guaranteedMonthly deposits on the business bank statements must support the earnings on the unaudited year-to-date P&L

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Self-Employment Required Documentation

Borrower has a Primary source of income, other than self-employment (i.e. salaried income from primary employment)	• Self-employment must be documented and evaluated in accordance with standard guidance • If positive and not used to qualify, show income as Non-Qualifying • If negative, the loss must be calculated in the DTI
Co-Borrower self-employment not used to qualify	• Self-employment must be documented and evaluated in accordance with standard guidance • If positive and not used to qualify, show income as Non-Qualifying • If negative, the loss must be calculated in the DTI

Business ownership is less than 25%	• Follow AUS for number of years of K-1 statements to provide
	• No business tax returns or Profit and Loss statements are required
	• If income is being used to qualify:
	    ○ Ordinary income, distributions or guaranteed payments to partners can be used to qualify
	    ○ Income after the most recent tax return must also be documented
	• If income is not being used to qualify, show income as Non-Qualifying
	• If loss is shown, the loss must be included in the DTI calculation

Primary source of income is Self-Employment with ownership of 25% or greater	• Self-employment must be documented and evaluated in accordance with standard guidance • Follow AUS for number of years of personal and business tax returns required • YTD Profit and Loss statement and balance sheet required if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period • Business bank statements are NOT required
Primary source of income is Self-Employment with ownership of 25% or greater and ***additional*** self-employed businesses are present	Used to qualify: • Self-employment must be documented and evaluated in accordance with standard guidance • Follow AUS for number of years of personal and business tax returns required • A year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period • Business bank statements are NOT required

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	Not used to qualify: - Self-employment must be documented and evaluated in accordance with standard guidance - Follow AUS for number of years of personal and business tax returns required - If positive income but not used to qualify, no YTD Profit and Loss statements are required; show the income as Non-Qualifying - If negative income, a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. The loss must be calculated in the DTI

Business Credit Reports

For manually underwritten loans, a business credit report must be obtained for all Corporations and 'S' Corporations (not required for Partnerships or Sole Proprietorship) in order to determine whether or not business debts are being paid on time. When obtained, the business credit report can be used as a tool to measure the positive and negative characteristics of a credit file as it relates to delinquency risk which may in turn be an indicator of the stability of the business, and income used to qualify.

Although the format and scoring of the report may differ slightly from vendor to vendor, the overall risk indicators should be consistent and identifiable. Risk reporting is determined based on factors such as:

- Credit: Number of trade experiences, balances outstanding, payment habits, credit utilization, trends over time
- Public records: Recency, frequency and dollar amounts associated with liens, judgments, bankruptcies
- Demographic information: Years on file, Standard Industrial Classification (SIC) code, business size

Guidance to assist in analyzing the Business Credit Report is provided below. The underwriter must review the report for substantial indicators of risk and signs of an inability to repay the loan presented by poor credit performance on the part of the business.

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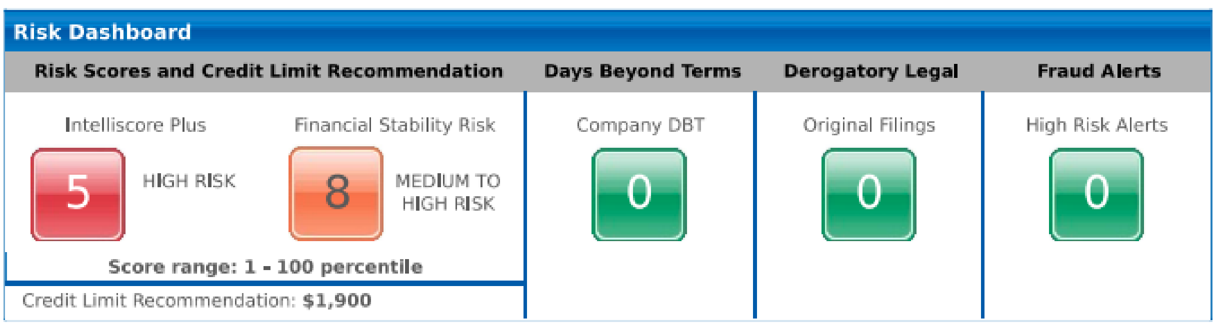
Risk Dashboard

The report will typically display a Risk Dashboard which will house the overall Risk Class (Low through High) as determined by a Risk Score Range of 1-100. This is made up of a Credit Risk Score and a Financial Stability Risk Score.

When a High Risk Class is generated, the underwriter will review the report for delinquencies and other derogatory reporting information. A Letter of Explanation from the borrower should be provided addressing the credit performance; the underwriter may request additional supporting documentation to substantiate the explanation and determine if the stability of the business can be supported.

Further review by an Underwriting Manager may be required.

Example of a Risk Dashboard:



Risk Class Determination

An example of how Risk Class is generated is provided below.

The Risk Determination (Low to High) is determined by where the Risk Class falls within the Score Range of 1 through 100. In this example, the Financial Stability Risk Score 8 (Medium to High Risk) is determined by where the Risk Class 4 falls within the Score range of 1 through 100.

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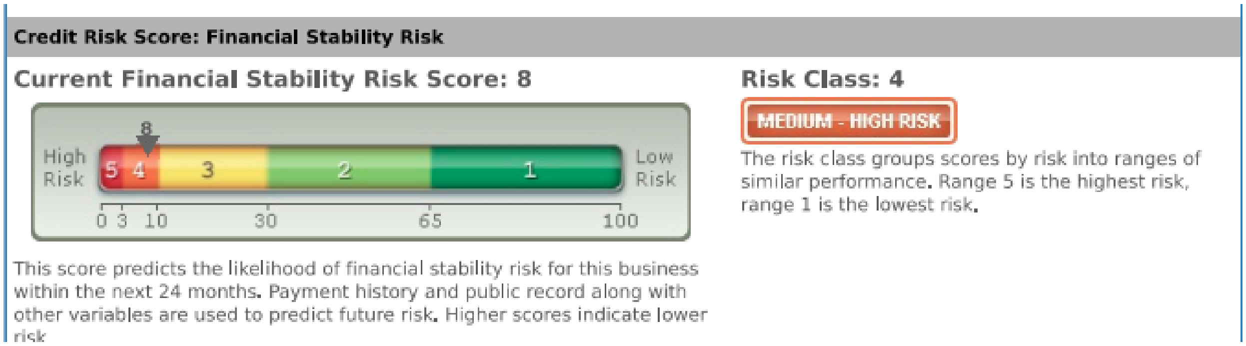
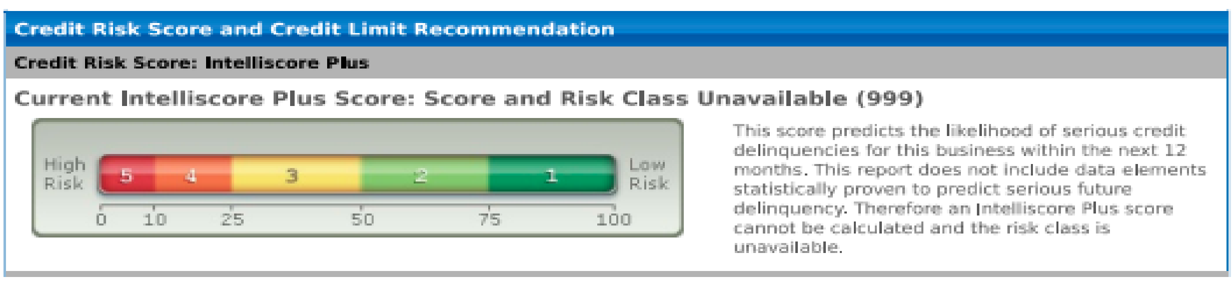


Credit Risk Score and Limitation Recommendation

The Report will typically issue a Credit Risk Score and Limitation Recommendation. The score predicts the likelihood of serious credit delinquencies for the business within the next 12 months. **Not all reports will include data elements sufficient to predict future delinquency, therefore, a score will not always be generated. The lack of a score is not an indication of risk and should not count against the borrower.**

If sufficient data elements are present and a score is generated, a Risk Class will be determined.

Two samples from an Experian report are provided below:



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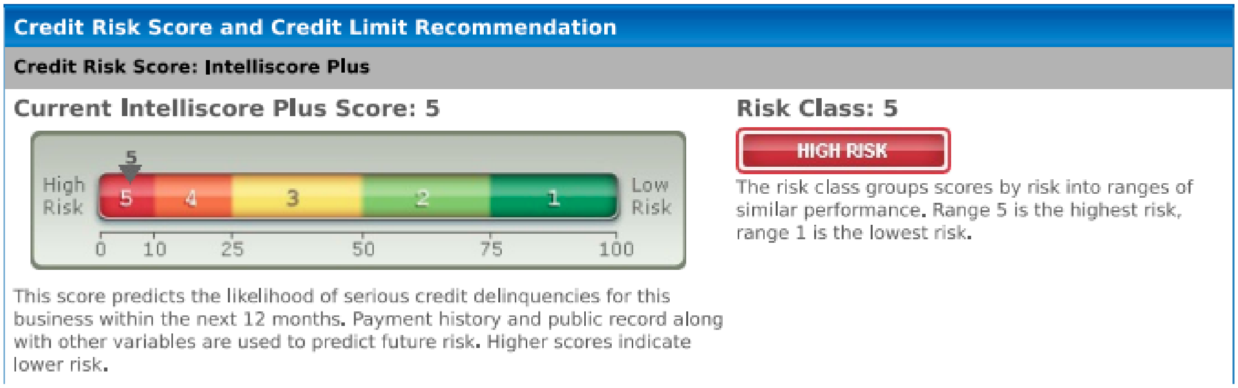


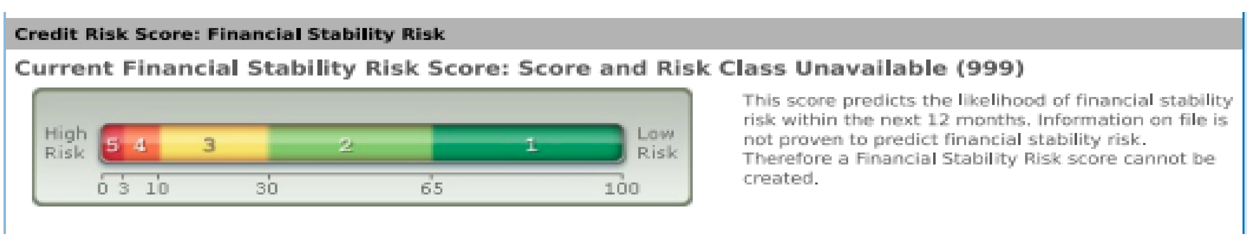
Current Financial Stability

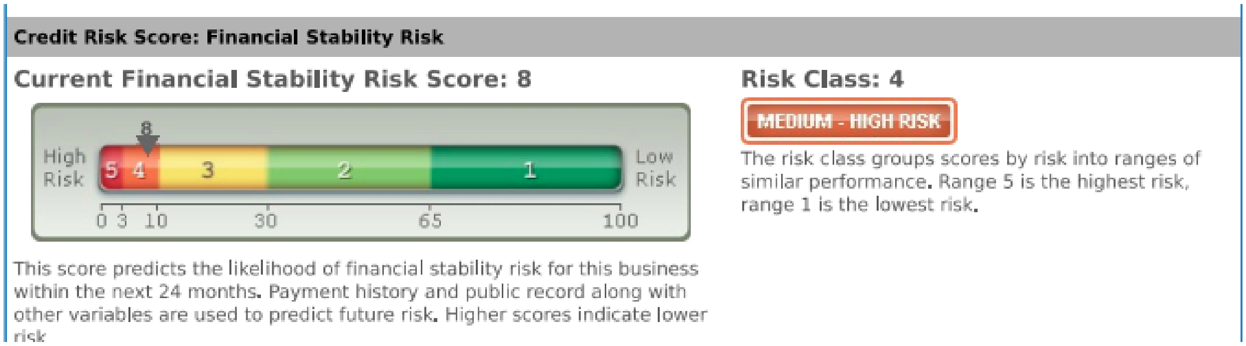
The Report will typically issue a Current Financial Stability Risk Score and Recommendation. The score predicts the likelihood of financial stability for the business within the next 12 to 24 months. Payment history and public record along with other variables are used to predict future risk.

Not all reports will include data elements sufficient to predict future stability, therefore, a score will not always be generated. The lack of a score is not an indication of risk and should not count against the borrower.

If sufficient data elements are present and a score is generated, a Risk Class will be determined.

Two samples from an Experian report are provided below:





Credit Limitation Recommendation

A Credit Limitation Recommendation may also be provided. This recommendation compares the business against similar businesses in the credit database; this recommendation is only a guide.

A DBT (Days Beyond Term) Score for the business may be indicated in the report. DBT is a dollar-weighted average number of days beyond the contractual due date that a business pays its bills based on tradelines that have been updated in the previous 3 months. DBT is calculated at +30 days: a DBT of 5 means that a customer is paying, on average at 35 days after invoicing.

Additional Information Displayed on the Report

The Business Credit Report may also reflect the following topics which can be analyzed to further assess the risk level of the business:

- Business Information
    - Provides details related to the operation including employee size and sales volume
- Principal / Guarantor Associated Businesses
    - Displays a list of any additional businesses that may be associated with the business principal
- Industry Trade Information
    - Provides specific information about the business industry trade creditors
- Collection Detail
    - Provides detailed collection information as reported by third party collection agencies
- Legal Detail and Corporate Search and Additional Business Information
- Liens Detail

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For guidance related to ordering a Business Credit Report, refer to Ordering and Reviewing a Credit Report.

Calculation of Effective Income

The Borrower's tax returns must be analyzed to determine gross Self-Employment Income. The underwriter must calculate gross Self-Employment Income by using the lesser of:

- The average gross Self-Employment Income earned over either;
  - the previous two years; or
  - the length of time Self-Employment Income has been earned if less than two years (where permitted); or
- The average gross Self-Employment Income earned over the previous one year

Exception Due to COVID-19 Related Economic Event

For self-employed Borrowers with a COVID-19 Related Economic Event that have since regained income at a level greater than or equal to 80 percent of their income prior to COVID-19 Related Economic Event for a minimum of six months, the Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- The average gross Self-Employment Income earned over the previous two years prior to the COVID-19 Related Economic Event; or
- The average gross Self-Employment Income earned over the previous six months after the COVID-19 Related Economic Event.

For Borrowers with gaps in self-employment, reduction in income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may exclude the months where the business was closed, or income was reduced when calculating Effective Income. The total time period of the Borrower's self-employment must still meet the minimum length of self-employment.

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Mileage Reimbursement

Add back the amount of the depreciation deduction reported on Schedule C; vehicle depreciation included as part of the standard mileage deduction may be added back by multiplying the business miles driven by the depreciation factor for the respective year.

The amount of allowable depreciation related to auto expenses will not correlate directly to the full amount of the current IRS Standard Mileage Rate. Only a portion of the rate is considered for automobiles a taxpayer uses for business purposes. The factors listed below may be used when multiplying the business miles driven by the depreciation factor for the respective year.

Tax Year	Portion of Business Standard Mileage
2024	30 cents per mile
2023	28 cents per mile

Meals and Entertainment Deduction

Meals and Entertainment expenses are not required to be deducted from self-employment income calculations.

Social Security Income

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

The Mortgagee must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three-year period from the date of case number assignment.

Social Security income can be documented using one of the following:

- Federal tax returns;
- Most recent bank statement evidencing receipt of income from the SSA ;
- Budget Letter" or "Benefits Letter" that evidences income from the SSA;

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- Social Security Benefit Statement, SSA-1099/1042S;

In addition to verification of income, the continuance of the income must be supported by obtaining from the Borrower:

- A copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income, or
- An equivalent document that establishes award benefits to the Borrower (equivalent document)

If any income from the SSA is due to expire within three years from the date of Case Number Assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the income can be considered effective and reasonably likely to continue. The underwriter may not request additional documentation from the Borrower to demonstrate continuance of Social Security Administration income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

Social Security Received on Behalf of Another Individual

In addition to the above listed guidance, benefits paid to the borrower on behalf of another individual may be considered qualifying income when:

- A borrower may be eligible for benefits from a spouse, ex-spouse, or from dependent parents (the benefit is paid to the borrower on behalf of the person)
- A borrower may use Social Security Income received by a dependent minor or disabled dependent
- Documentation is provided to support the person for whom the SSI is paid is a household member and the income will continue and be available to the borrower for repayment of the mortgage

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Social Security Disability Benefits

If any disability income is due to expire within three years from the TRID application date, the income cannot be used as Effective Income.

If the Notice of Award or equivalent document does not have a defined expiration date, the income may be considered effective and reasonably likely to continue. The underwriter may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue. Under no circumstance may the underwriter inquire into or request documentation concerning the nature of the disability or medical condition of the Borrower.

For Social Security Disability income, including Supplemental Security Income (SSI), a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower must be obtained, along with one of the following documents:

- Tax Returns;
- The most recent bank statement evidencing receipt of income from the SSA;
- A Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
- A copy of the Borrower’s form SSA-1099/1042S, Social Security Benefit Statement

Non-Taxable Benefits

Recipients of Social Security benefits may not be required to pay federal income taxes on all or part of the income, thereby allowing the benefit to be grossed up by the appropriate tax percentage.

The following link may assist when determining the benefit amount subject to taxation by the IRS https://www.ssa.gov/benefits/retirement/planner/taxes.html

Refer to the Non-Taxable Income section for additional guidance.

Temporary Employment

Temporary work or temporary employment refers to an employment situation where the working arrangement is limited to a certain period of time based on the needs of the employing organization, such as employment with a staffing agency.

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FHA has clarified that income from Temporary Employment can be considered as Effective Income. Evidence of a three-year continuance from the date of the Case Number Assignment is required if the employment documentation, such as a VOE or contract for work assignment, provides an end or term-date for the current job.

Traveling Nurses

Travel nursing is a nursing assignment concept that developed in response to the nursing shortage. The industry supplies nurses who travel to work in temporary nursing positions, mostly in hospitals. While travel nursing traditionally refers specifically to the nursing profession, it can also be used as a blanket term to refer to nursing and allied healthcare professionals, physicians, advanced practice nurses, physician assistants, dentists and other support staff including certified nursing assistants.

Nurses may be paid as a contract employee and receive either a W2 or 1099 wage. Employment can also be offered under short or long-term assignments.

FHA does not provide direct guidance for income derived from employment as a traveling nurse, however, does require the income meet the requirements for Effective Income.

In the instance where a borrower may have less than a 12 month history of employment as a traveling nurse receiving variable wages, employment may still be considered acceptable if the borrower:

- Can demonstrate an employment history in the same line of work, and
- Can qualify using a 12 to 24 month income average from the prior employer without consideration for wages from new employment as a traveling nurse. The Underwriter must use the most conservative income between the prior wages and current income received.

A Loan Level Review may be submitted if additional guidance is needed when reviewing the length of the borrower’s employment history, or to support Occupancy.

History of Employment

The degree of fluctuation and the length of receipt of the type of wages (or similar earnings) must be considered when calculating income used to qualify for the Mortgage. The Underwriter must evaluate

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the income trend and use the amount that is most likely to continue for the next three years from the Note date.

The stability of income is determined based primarily upon historical earnings, thus a sufficient income history must be established. For this reason, most income types that fluctuate have a history requirement of two years. In certain instances, a shorter history may still be considered stable if a written analysis and sufficient supporting documentation is provided to justify the stability of income.

If needed, a combination of employers or assignments may be used to establish a sufficient employment history.

Trust Income

Trust Income refers to income that is regularly distributed to a borrower from a trust.

Required Documentation

Verify and document the existence of the Trust Agreement or other trustee statement along with the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

A minimum of one month's receipt of the Trust Income received prior to the Note date must be supported with the most recent 30-day asset statement or bank transaction history.

Regular payments must continue for three years from the Note date.

Calculation of Effective Income

Use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

Trust Income Reported on Form 1041

Form 1041 U.S. Income Tax Return for Estates and Trusts is used to report income earned by a trust or estate. Only the share of income reported on a Schedule K-1 and carried over from the 1041 to the borrower's Individual Federal Income Tax Return Form 1040 may be considered as eligible income.

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Trust income displayed on a 1041, but not reported on a Schedule K-1 and carried over to the borrower's 1040, may not be considered as qualifying income.

Union Employee(s)

Members of Trade Unions, such as Carpenters, Plumbers, Masons, or Electricians may work for several different companies over the course of a year and as a result, have several W2 forms.

Stability of employment must be supported with a two-year work history along with a three-year evidence of continuance from the date of the Case Number Assignment (if there is not a clear indication that the income will cease, it may be presumed that the income will continue).

If the borrower is employed full time, the underwriter may use the current rate of pay as long as the income is in line with prior years earnings. If a borrower is employed less than full-time, a two-year average must be used.

In all cases, the underwriter must be able to justify the use of the income and to deem it stable and likely to continue.

Rental Income

Rental income may be considered from an existing and prospective tenant if documented in accordance with the following requirements.

Rental Income from the Subject Property

Rental income from the subject Property may only be considered effective income when the property is, or will be, a one-unit dwelling with an ADU, a two-four unit dwelling, or an acceptable one-four unit investment property.

No income from commercial space may be included in Rental Income calculations. Required Documentation varies depending on the length of time the Borrower has owned the property.

Reserves

Refer to the Reserves section for required reserves on Total and Manually Underwritten loans if rental income is being used as effective income to qualify the borrower.

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Limited or No History of Rental income

In the case that the borrower does not have a history of Rental Income from the subject property since the previous tax filing:

1-Unit	Verify and document proposed rental income by obtaining a Fannie Mae from 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report and a Fannie Mae Form 1007/Freddie Mac form 1000, Single Family Comparable Rent Schedule showing fair market rent and if available, the prospective lease.
1-Unit with an Accessory Dwelling Unit (ADU)	Verify and document the proposed rental income from the ADU by obtaining a Fannie Mae Form1004/Freddie Mac Form 70, URAR, and a Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule, showing fair market rent and, if available, the prospective lease.
2-4 Units	Verify and document proposed rental income by obtaining an appraisal showing fair market rent (using Fannie Mae Form 1025/Freddie Mac Form 72) and if available, the prospective lease(s).

History of Rental Income

(TOTAL)

In the case that the borrower has a history of Rental Income from the subject property since the previous tax filing, the underwriter must verify and document the existing Rental Income by obtaining the following:

- Borrower's most recent tax returns, including Schedule E, from the previous two years.

For properties owned less than two years, the Mortgagee must document the date of acquisition by providing the deed, Closing Disclosure, or similar legal document.

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(Manual)

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, the Mortgagee must verify and document the existing Rental Income by obtaining the following:

- Existing lease, rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation), and
- The Borrower's most recent tax returns, including Schedule E, from the previous two years.

For properties owned less than two years, the Mortgagee must document the date of acquisition by providing the deed, Closing Disclosure, or similar legal document.

Calculation of Effective Income

The net subject property Rental Income must be added to the Borrower's gross income to calculate Effective Income. The borrower(s) total mortgage payment may not be reduced by the net subject property Rental Income.

Limited or No History of Income Calculation

In the case that the borrower does not have a history of Rental Income from the subject property since the previous tax filing, the underwriter must use 75 percent of the lesser of:

- Fair market rent reported by the Appraiser; or
- The rent reflected in the lease or other rental agreement

One-Unit with an Accessory Dwelling Unit (ADU)

The amount of the Rental Income from an ADU used as Effective Income **must not exceed 30 percent** of the total monthly Effective Income used to qualify the Borrower.

History of Rental Income Calculation

In the case that the borrower has a history of Rental Income from the subject property since the previous tax filing, the underwriter must calculate the Rental Income by averaging the amount shown on Schedule E.

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Depreciation, Mortgage Interest, Taxes, Insurance, and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the property has been owned for less than two years, the underwriter must annualize the Rental Income for the length of time the property has been owned.

Self-Sufficiency Rental Income Eligibility

A Net Self-Sufficiency Rental Income calculation is required on all three- to four-unit properties. Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject Property over and above the Principal, Interest, Taxes, and Insurance (PITI).

The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent.

Net Self-Sufficiency Rental Income is calculated by using the Appraiser's estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser's estimate for vacancies and maintenance, or 25 percent of the fair market rent.

Note: The Self-Sufficiency Worksheet is a Smart Document in Octane for completion by the underwriter.

Multiple Units with Designated Commercial Use

FHA has provided the following clarification and direction as it relates to 2-4 units containing Mixed Use characteristics.

If the subject is a 2-4 unit property in which one of the units is being used for commercial purposes, the property would be designated as Mixed Use and the commercial space/area would not be considered in the residential unit count.

Example:

- A 3-unit property with 2-units designated for residential use and the third unit used for commercial purposes would be considered a 2-unit with Mixed Use. The property would not be subject to the Net Self-Sufficiency Rental Income calculation.
- A 4-unit property with 3-units designated for residential use and the fourth unit used for commercial purposes would be considered a 3-unit with Mixed Use. The property would be subject to the Net Self-Sufficiency Rental Income calculation.

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Refer to Chapter 12 Property and Appraisal Requirements for full guidelines related to Mixed Use properties.

Rental Income from Commercial Space

Rental income derived from the commercial space of a Mixed Use property may be considered as effective income as long as the following requirements are met:

- The borrower must have a documented two year history of receipt of income from the property (not eligible on purchase transactions);
- The appraisal for the Mixed Use property must be performed by an FHA appraiser who possesses a commercial appraisal professional designation/license; and
- All guidelines pertaining to the use of Rental Income must be followed

Rental Income from Other Real Estate Holdings

Rental Income from other real estate holdings may be considered Effective Income if the requirements listed below are documented and met.

If Rental Income is being considered from the Property being vacated by the Borrower, the Borrower must be relocated to a property more than 100 miles from the Borrower's current Principal Residence. The underwriter must obtain a lease agreement of at least one year's duration after the Mortgage is closed and obtain evidence of the payment of the security deposit or first month's rent. Exceptions to the 100 miles apply to a 1-4 unit departing residence in which rental income is reflected on the Schedule E. The following guidelines apply to this exception:

- When the borrower's departing residence is a 1-4 unit property in which they have resided in one unit and have a documented history of generating income from the other units, i.e. income reporting on Schedule E of the tax returns, the borrower is not required to relocate more than 100 miles from the property to consider rental income.
- **Note**: Only income generated from the unit(s) with a documented history of receipt may be considered, rental income from the unit in which the borrower occupied as a primary residence may not be used if relocating less than 100 miles from the subject property.

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- Departure Residence Definition: A departure residence is a home that is currently owned and occupied by the borrower that they are planning to move out of and convert to an investment property.
  - Note: If the borrower chooses to convert that home to an investment property after acquisition of a new home or establishment of a new residence, the property no longer meets the definition of a departure residence.

Required Documentation for Properties with Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, an appraisal must be obtained evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

1-Unit or One-Unit with an Accessory Dwelling Unit

Verify and document the proposed Rental Income by obtaining a Fannie Mae form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report and a Fannie Mae Form 1007/Freddie Mac form 1000, Single Family Comparable Rent Schedule; Operating income statement, showing fair market rent and if available, the prospective lease.

Two-Four Unit

Verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report), and if available, the prospective lease.

Required Documentation for properties with a History of Rental Income

The underwriter must obtain the Borrower(s) most recent two years of tax returns with Schedule E.

Calculating Net Rental Income for properties with Limited or No History of Rental Income

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the underwriter must deduct the Principal, Interest, Taxes, and Insurance (PITI) from 75% of the lesser of:

- Fair market rent reported by the Appraiser, or

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- The rent reflected in the lease or rental agreement

Calculating Net Rental Income for properties with a History of Rental Income

The underwriter must calculate the net Rental Income by averaging the amount shown on Schedule E provided the Borrower(s) continues to own all Properties included on Schedule E.

The underwriter may add back the Depreciation, mortgage interest, taxes ,insurance and any HOA dues shown on Schedule E to the net income or loss.

If the property has been owned for less than two years, the underwriter must:

- Annualize the Rental Income for the length of time the Property has been owned; and
- Document the date of acquisition by providing the deed, Closing Disclosure, or similar legal document.

Positive net Rental Income must be added to the Borrower's Net Income. Negative Net Rental Income must be included as a debt/liability.

Insurance

Hazard Insurance

Hazard insurance provides coverage for property damage caused by fire, wind, or other natural disasters.

Special coverage (an endorsement to the Homeowner's Policy) is typically required for damage caused by other types of localized hazards such as flood, earthquake, high winds, hurricane, sinkhole, mine subsidence, and/or volcanic eruption.

Coverage

At a minimum, the mortgage premises must be protected against loss/damage from fire and other dangers within the scope of standard extended coverage. The Policy must contain the standard clause that the Insurer will notify Cardinal at least 10 days before a reduction in coverage or cancellation of the Policy.

The minimum coverage must be equal to the lowest of:

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- The appraiser's estimated replacement cost, less the site value; or
- The outstanding mortgage balance if replacement cost is not available
- For FHA Streamlines, Cardinal will accept the borrower's existing policy as having adequate coverage for replacement cost.
- For manufactured homes, the insurer determines the minimum coverage available.

Refer to Chapter 16 Insurance for additional requirements.

Flood Insurance

A Life of the Loan flood certification is required on all loans to determine if the property is located in an SFHA as designated by the Federal Emergency Management Agency (FEMA). For properties located within an SFHA, flood insurance must be maintained for the life of the mortgage.

If "none" is shown in the Flood Designation Area because FEMA has not yet mapped the subject area, Cardinal does not require flood insurance.

Refer to Chapter 16 Insurance and Chapter 12 | Property and Appraisal Requirements | FHA Lending Guide for requirements.

Wind Insurance

Windstorm coverage is required and is usually included under the standard extended hazard coverage policy on the subject property.

- If windstorm coverage is excluded/limited, then the borrower must obtain a separate policy or an endorsement from another Commercial Insurer that, with the existing homeowner policy, provides adequate total coverage.
- The maximum deductible may not exceed 5% for dwelling coverage or the maximum allowed under state law.

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Real Estate Tax Payment

Required Documentation

The calculation of real estate taxes for qualification purposes must be documented using either:

- Copies of current property tax statements
- Figures provided by the title company/settlement agent, or
- The Property Tax Estimate from CoreLogic located in Octane. The CoreLogic Property Tax Estimate will provide the current and projected tax values for the property based on the occupancy and loan purpose
    - Note: The CoreLogic Property Tax Estimate can be located on the Octane Charges & Credits screen in the Taxes tab. It can also be found in Octane > Documents > Property Tax Estimate.

Projected Tax

The DE underwriter may (or in some circumstances must) project the real estate taxes (Projected Amount) if they document one of the following:

- The amount of taxes will be reduced based on federal, state, or local jurisdictional requirements (e.g. Military or Senior Exemptions). However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.

- The property jurisdiction requires a transfer of ownership that typically results in a reassessment or revaluation of the property and corresponding increase in the amount of taxes.

- The transaction is New Construction (i.e. One Time Close program, or Proposed, Under Construction or Newly Built Never Occupied).

    - A reasonable estimate of the real estate taxes based on the value of the land and completed improvements must be calculated.

    - Acceptable source documents include:

        - Estimate of taxes from either the title company or the tax assessor's office

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- Property Tax Estimate from CoreLogic
- Available Exceptions: Reference New Construction | State Specific Tax Calculations for specific states that have flexibilities regarding the tax calculations for new construction properties.

- The borrower **must** be qualified with the Projected Amount
  - Note: A new feature allows the transaction to close with the current amount of taxes but will not impact the Projected Amount used in the qualifying DTI in Underwriting.

Tax Proration

FHA will allow tax proration to be considered as part of the borrower's minimum required investment (MRI) provided that Cardinal Financial has verified the borrower has the minimum required investment (in assets) prior to or at closing. In addition, all HOC's will continue to permit the borrower to only bring the actual dollar amount necessary to meet the minimum required investment less the tax credit they will receive at closing.

States with Taxes Paid in Arrears

If the subject property is located in a state where the real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the FHA's minimum required investment only if the borrower can document sufficient assets from acceptable sources of funds to meet the minimum required investment, plus the borrower paid closing costs at the time of final loan approval.

This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total Minimum Required Investment.

In order to determine the required amount of assets to be verified, the underwriter and closer must carefully consider the total of charges and credits without any county, city, or school tax amounts listed in the prorations section of the closing disclosure or charges and credits section.

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Escrow Holdbacks

Escrow holdbacks are permitted for completion of repairs to the subject property in order to meet HUD Minimum Property Standards. Repair Escrows must be submitted to Credit Committee for approval; refer to Compliance Loan Exception Policy for requirements.

For complete requirements, refer to the Escrow Holdback Policy & Procedures document.

Identity of Interest

An Identity of Interest transaction is a sale between business partners, other business affiliates or between Family Members as defined in the Family Member Definition section.

A business relationship refers to an association between individuals or companies entered into for commercial purposes.

Certain types of loan transactions may generate an increased risk due to the relationships of the people or companies involved in the transaction. Prudent underwriting and thorough analysis of the parties may necessitate additional scrutiny in order to mitigate any possible risk due to the relationship.

When an identity of interest relationship is identified, the proper level of due diligence must be performed to ensure the transaction is eligible and that the relationship between the parties has not influenced or compromised the transaction.

Family Member Definition

Family members are defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

- Child, parent, or grandparent
    - A child is defined as: a son, stepson, daughter, or stepdaughter, legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption, foster child
    - A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent

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- Spouse or domestic partner
  - A domestic partner is an unrelated and unmarried person who shares common living quarters with the borrower-tenant
  - NOTE: FHA does not recognize fiance/fiancee or ex-spouse as a family member, however, may be considered for a non-equity gift under the definition of a close friend (not currently residing with the borrower) or domestic partner (if currently residing with the borrower)
  - Refer to the Acceptable Donor section for guidance
- Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption
- Foster child
- Brother, stepbrother
- Sister, stepsister
- Uncle
- Aunt
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law

Maximum LTV for Identity of Interest Transactions

- The maximum LTV percentage for an Identity of Interest transaction on Principal Residences is restricted to 85%.
- The maximum LTV percentage where a tenant/landlord relationship exists at the time of contract execution is restricted to 85%.

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Maximum LTV Exceptions

The 85% maximum LTV restriction does not apply for Identity of Interest transactions under the following circumstances.

Family Member Transactions

- The borrower is purchasing the principal residence of another family member; or
    - Acceptable documentation to support the borrower's purchase of a family member's primary residence includes, but is not limited to:
        - Confirmation the subject property's current owner's relationship to buyer is provided in the format of a signed and dated statement by the property seller confirming the family member's relationship with the borrower.
        - Confirmation the subject property is being used as the family member's primary residence.
- The borrower is purchasing a property owned by another family member in which the borrower has been a tenant for at least six (6) months immediately predating the Sales Contract execution date:
    - Acceptable documentation confirming the subject property's current owner's relationship to buyer is provided in the format of a signed and dated statement by the property seller confirming the family member's relationship with the borrower.
    - Acceptable documentation to support the borrower's occupancy as a tenant for six (6) months includes, but is not limited to:
        - An executed lease agreement which supports a lease inception date to ensure the residency commences at least six months preceding the sales contract date;
        - Six months of a utility bill such as cell phone, cable, internet, water, gas or electric predating the sales contract date (it is acceptable to provide only the first and last statement to support the 6 month timeline)

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        - Current state issued identification reflecting the subject property address which shows an issuance date of no less than 6 months immediately predating the purchase contract date;
        - Paystubs supporting the borrower has been residing in the property for the most recent six months immediately predating the purchase contract date (it is acceptable to provide only the first and last paystub to support the 6 month timeline);
        - Asset statements supporting the borrower has been residing in the property for the most recent six months immediately predating the sales contract date (it is acceptable to provide only the first and last statement to support the 6 month timeline);
    - A rental payment history is NOT required unless meeting Manual underwriting housing payment history guidelines.

Builder's Employee Purchase

The 85% LTV restriction may be exceeded if the employee of the Builder, who is not a Family Member, purchases one of the builder's new houses or models as a Primary Residence.

Acceptable documentation to support the borrower is an employee of the builder but is not related to the builder, includes, but is not limited to:

- Signed written attestation confirming that the borrower is not related to any officers, directors, stockholders, or partners of a corporation or partnership owning or selling the property.
- Documentation supporting the builder is one or more borrower(s)'s employer Acceptable documentation types include:
    - Verification of Employment identifying builder as employer
    - Paystubs identifying builder as employer
    - Most recent IRS Form W-2 identifying builder as employer

        - other supporting documentation that confirms borrower's employer is the builder seller

Corporate Transfer

The 85% LTV restriction may be exceeded if a corporation transfers an employee to another location, purchases the employee's house, and sells it to another employee.

    - Acceptable documentation to support the sale involves a corporation who transferred an employee to another location, purchased the employee's house, and is selling the house to another employee includes:
        - Relocation Agreement(s) outlining the original relocation of an employee and corporation's acquisition of employee's home
        - Relocation Agreement and Sale Agreement outlining the new buyer is also an employee of the corporation.

Tenant Purchase

The 85% LTV restriction may be exceeded if the current tenant purchases the property where the tenant has rented the property for at least six (6) months immediately predating the Sales Contact. A lease or other written evidence to verify tenancy and occupancy is required.

Acceptable documentation to support the borrower's occupancy as a tenant for six months includes, but is not limited to:

- An executed lease agreement;
- Six months of a utility bill such as phone, gas or electric;
- Current state issued ID reflecting the subject property address which shows an issuance date of no less than 6 months immediately predating the sales contract;
- Paystubs supporting the borrower has been residing in the property for the most recent six months immediately predating the sales contract (it is acceptable to provide only the first and last paystub to support the 6 month timeline)

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- Asset statements supporting the borrower has been residing in the property for the most recent six months immediately predating the sales contract (it is acceptable to provide only the first and last statement to support the 6 month timeline)

A rental payment history is NOT required unless meeting manual underwriting housing payment history guidelines.

In the instance where the borrower has moved into the subject property after the execution of the purchase contract, but prior to the closing date, identity of interest guidelines for a tenant/landlord relationship do not apply.

Interested Party Contributions

The maximum contribution paid by the Seller (or any party involved in the transaction) toward the Buyer's closing costs and/or prepaids on purchases is 6%.

The 6% limit also includes:

- Origination Fees, other closing costs, and discount points including any items Paid Outside Closing (POC).
- Payments of mortgage interest for fixed-rate mortgages
- Mortgage Payment Protection insurance and
- Payment in full of UFMIP

Interested Party Contributions may not be used for the borrower's minimum Required Investment.

Refer to Inducement to Purchase for additional details.

Exceptions

Premium Pricing credits from the Mortgagee or TPO are excluded from the 6 percent limit, provided the Mortgagee or TPO is not the seller, real estate agent, builder, or developer.

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Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution. The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

Required Documentation

The Mortgagee must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, and Closing Disclosure or similar legal document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, a copy of this document must be provided to the assigned Appraiser.

Inducement to Purchase

Inducement to Purchase refers to certain expenses paid by the seller and/or other Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage. These inducements include, but are not limited to:

- Contributions exceeding 6 percent of the purchase price;
- Contributions exceeding the origination fees, other closing costs, prepaid items, and discount points;
- Decorating allowances;
- Repair allowances;
- Excess rent credit;
- Moving costs;
- Paying off consumer debt;
- Personal Property (see below);
- Sales commission on the Borrower's present residence (see below); and

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- Below-market rent (see below), except for Borrowers who meet the Identity-of-Interest exception for Family Members

Personal Property

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if the inclusion of the item is customary for the area:

- Range
- Refrigerator
- Dishwasher
- Washer/ Dryer
- Carpeting
- Window Treatment

Sales Commission

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence. An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

Rent Below Fair Market

A reduced rent is an inducement to purchase when the sales contract includes terms permitting the Borrower to live in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below the Appraiser's estimate of fair market rent. When such an inducement exists, the amount of inducement is the difference between the rent charged and the Appraiser's

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estimate of fair market rent prorated over the period between execution of the sales contract and execution of the Property sale.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

Maximum Loan Amount

The maximum loan amount on a Purchase is calculated by taking the maximum loan-to-value (LTV) for the selected program and multiplying it by the lesser of the sales price or appraised value, not to exceed FHA Statutory Loan Limit for the applicable county.

Maximum Loan Term

Effective Age and Remaining Economic Life

The effective age reflects the condition of a Property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant difference between the actual and effective ages requires an explanation.

Required Analysis and Reporting

The Appraiser must state the remaining economic life as a single number or as a range for all property types, including condominiums. The Appraiser must provide an explanation if the remaining economic life is less than 30 years. The Appraiser must apply the appropriate technique to estimate the economic life of the subject and not just report a number without analysis.

Streamline Refinances Without an Appraisal

The maximum amortization period of a Streamline Refinance is limited to the lesser of:

- the remaining amortization period of the existing Mortgage plus 12 years; or
- 30 years

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Maximum LTV/CLTV

FHA LTV and CLTV limits are calculated using base loan amount and do not include UFMIP. Modifying a subordinate lien to keep the subordinate lien in subordinate position is not considered a new subordinate lien.

Refer to the applicable product snapshot for LTV/CLTV restrictions based on specific program attributes.

<table>
<tr><th>Transaction Type</th><th>Maximum LTV</th><th>Maximum CLTV</th></tr>
<tr><td>Purchase</td><td>96.50% of the adjusted value</td><td rowspan="3">
<table>
<tr><th>Entity Type</th><th>CLTV</th></tr>
<tr><td>Governmental Entity and HOPE Grantee</td><td>No max. CLTV for secondary financing loans</td></tr>
<tr><td>HUD-Approved Nonprofit</td><td>No max. CLTV for secondary financing loans</td></tr>
<tr><td>Family Members</td><td>Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value</td></tr>
<tr><td>Private Individuals and Other Organizations</td><td>Base Loan Amount and secondary financing amount must not exceed the applicable FHA Loan-to-Value (LTV) limit</td></tr>
</table>
</td></tr>
<tr><td>No Cash-out Refinance</td><td>97.75% of the adjusted value</td></tr>
<tr><td>Cash-out Refinance Effective with Case Numbers ordered on or after September 1, 2019, the maximum LTV/CLTV will decrease from 85% to 80%.</td><td>80.00% of the adjusted value</td></tr>
</table>

Qualifying Ratios

Refer to product snapshot for DTI and Credit Score requirements for allowable qualifying ratios.

Purchases

- Borrower's minimum required investment is 3.5% from either their own funds or FHA acceptable sources.

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- Maximum mortgage is calculated based on the lesser of the sales price or appraised value.
- Refer to the Down Payment Assistance Program (DAP) topic in the Secondary Financing section of this guide for additional requirements
- Cardinal offers Purchase transactions on owner-occupied principal residences only

The following specific programs may exceed 96.5% LTV/CLTV:

- 110% LTV/CLTV for HUD REO Purchase with 203(b) with escrow
  - Refer to the HUD REO Purchase section
- 100% LTV/CLTV for HUD REO $100 Incentive Purchase

Refinances

A Refinance Authorization Number from FHA Connection (FHAC) must be obtained for all FHA-to-FHA refinances. FHA will not issue a new Case Number for any FHA to FHA refinance where the existing mortgage to be paid off has a Repair or Rehabilitation escrow account that has not been electronically closed out in FHAC.

Subject Property Mortgage Debt not in Borrower's Name

When a borrower is vested on the title to the subject property, but not on the existing mortgage, a mortgage rating is not required. A Rate and Term Refinance is permissible.

When the loan is manually underwritten, however, the payment history for the subject property must be documented in accordance with Manual guidelines under Payment History Requirements.

Netted Escrow Account Funds

Application of Unused Borrower Funds from an Existing FHA Mortgage:

When reviewing the payoff demand and application of unused borrower funds from an existing FHA mortgage, the max loan amount calculation is not impacted by any "netted" escrow account funds. If a payoff demand indicates escrows have been netted, underwriters must update Credit and Liabilities to indicate an existing mortgage being paid off with escrow balance and affix transaction tag

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payoff_net_escrows. This will identify that any unused borrower funds from an existing mortgage escrow account may be applied as authorized on and upon identification of a netted escrow payoff the subject transaction closing package will include the required disclosure indicating that the borrower's escrow funds are being utilized towards new subject property refinance.

As stated above, the maximum loan amount calculation is not impacted by any "netted" escrow account funds that may be shown on the payoff statement as a negative number as long as the netted escrow amount is less than the amount to set up the new impound account. The underwriter must assure that the figure for the netted escrow is LESS THAN the total of the new escrow account shown in Octane Charges and Credits in Section F and G. Please do not include any interim interest/prepaid interest in the calculation. If the netted escrow figure on the payoff is MORE than the sum of the taxes, insurance, and aggregate adjustment in Section F and G on the Charges and Credits screen, a dollar for dollar reduction in the base loan amount calculation must be completed.

Borrower Eligibility

At least one borrower on the refinancing mortgage must hold title to the property being refinanced prior to Case Number assignment.

Cash-out Refinances

- Require credit and appraisal underwriting
- Primary Residence only
- 1-4 unit properties
- Income from a non-occupant Co-Borrower may not be used to qualify for a Cash-out refinance
- If the subject Property is a one-unit with an Accessory Dwelling Unit (ADU), rental income from the ADU cannot be used as Effective Income to qualify for a cash-out refinance
    - This requirement applies for mortgages underwritten through TOTAL Scorecard and manual underwriting

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Maximum Loan Amounts and Loan-to-Value

The combined mortgage amount of the first mortgage and any subordinate liens cannot exceed the Nationwide Mortgage Limit described in National Housing Act Statutory Limits.

The maximum LTV/CLTV is 85% of the adjusted value.

Existing subordinate financing may remain in place, subordinate to the FHA insured first mortgage, to a maximum CLTV of 85%, provided the borrower qualifies for making scheduled payments on all liens.

Seasoning Requirements

Ginnie Mae, the investor for FHA transactions, issued APM 17-06 on December 7, 2017, which addresses new Ginnie Mae requirements for FHA cash-out refinance transactions and FHA Streamline transactions. The new Ginnie Mae requirements do not apply to FHA rate and term credit qualifying transactions.

Subsequently, APM 18-04 was issued on May 30, 2018, APM 19-05 on August 1, 2019 and APM 21-06 on October 29, 2021.

Several of the Ginnie Mae requirements are more restrictive than FHA; as such, both FHA and Ginnie Mae requirements will need to be met in order to ensure compliance. Refer to the Resource | Government Loan Seasoning Requirements document for detailed seasoning requirements.

Forbearance and Loan Modification

Refer to the below table when considering the applicability of seasoning requirements.

Term	Definition
Forbearance	A Loan Forbearance is a change to one or more terms of a Borrower's Mortgage repayment agreement, *without* a change to the terms of the original Note. Forbearance Plans may allow for a period of reduced or suspended payments and may provide specific terms for repayment.
Loan Modification	A Loan Modification is a permanent change to the repayment terms of the original Note. A loan modification is not a new note, nor is it a replacement of the original note, but is simply an addendum to the original document, changing the terms as agreed.

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	Modifications may include a change to the terms of repayment to reduce the monthly obligation, to extend the term of the original loan, to reduce an interest rate, and/or to forbear or reduce the principal balance.

Properties Owned Free and Clear

Properties owned free and clear may be refinanced as Cash-out transactions.

The following seasoning requirement does not apply to a property being refinanced that is owned free and clear:

- The borrower must document that all payments were paid within the month due for the previous twelve (12) months or since the borrower obtained the mortgage, whichever is less.

Mortgage in Forbearance

The borrower must have made 12 consecutive payments following a forbearance to be eligible for a Cash-out Refinance transaction. The above table is provided as it relates to FHA seasoning requirements only. Refer to the Mortgage Account in Forbearance section for additional guidance.

Occupancy Requirements

Cash-out Refinance transactions are only permitted on owner-occupied principal residences. The property securing the Cash-out refinance must have been owned and occupied by at least one borrower as their Principal Residence for the 12 months prior to the date of Case Number Assignment. A borrower may be added with documentation supporting they currently occupy the property.

Property Owned by a LLC

FHA has provided the following clarification related to properties owned by a LLC and ownership requirements:

The definition of Borrower does not extend to businesses owned by the borrower, regardless of ownership percentage. Borrowers, as individuals, must meet cash-out policy requirements, including the requirement that the property securing the Cash-out refinance must have been owned and occupied by

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at least one borrower as their Principal Residence for the 12 months prior to the date of Case Number Assignment.

Ownership of the property by the borrower's LLC (regardless of percentage) may not be counted towards meeting ownership requirements.

Inheritance Exceptions

A borrower is not required to occupy the property for a minimum period of time before applying for a Cash-out Refinance, provided the borrower has not treated the subject property as an Investment property at any point since the inheritance of the property. If the borrower rents the property following inheritance, the borrower is not eligible for Cash-out Refinance until the borrower has occupied the property as a principal residence for at least 12 months.

Required Documentation - Evidence of Occupancy

Cardinal Financial must review the borrower's employment documentation or obtain utility bills to evidence that the borrower currently occupies the property as their principal residence.

One (1) month's utility bills or one (1) month paystub to support will be acceptable to support current billing occupancy, provided that:

- There is nothing in the loan file that suggests that the Borrower(s) may not be occupying the subject property
- The homeowner's insurance policy reflects the billing/mailing address as the subject property address

Acceptable documentation includes:

- Pay stub or other evidence of income receipt, such as an award letter (Credit Qualifying Transactions) or written statement from the borrower's employer confirming the borrower's place of residence.
- Major utility bill (where applicable) reflecting mail address as subject address and usage that supports occupancy:

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- Phone billing statement reflective of service address
- Internet billing statement reflective of service address
- Television service billing statement
- Electric billing statement
- Gas billing statement

Utility bills to support occupancy must:

- Be listed in the borrower's name
- Be dated within 60 days of the effective funding date
- Reflect the subject property as the service address and mailing address

In the event occupancy within the subject property cannot be supported for the preceding 12 months but only for current occupancy, the subject transaction is ineligible for a Cash-out refinance.

Please Note: Bank statements or LoanSafe Fraud Manager Report are not acceptable tools to support occupancy.

Payment History Requirements

The borrower is required to have made all payments for all their mortgages within the month due for the previous 12 months or since the borrower obtained the mortgages, whichever is less.

Additionally, the payments for all mortgages secured by the subject property must have been paid within the month due for the month prior to mortgage disbursement.

- If the mortgage obligation on the subject property is not reported on the borrower's credit report but the obligation or Note is in our borrower's name, a verification of mortgage, bank statements, or other documentation to evidence that all payments have been made by the borrower in the month due for the previous 12 months is required.
- If the mortgage obligation on the subject property is not in our borrower's name and therefore is not reported on the borrower's credit report, bank statements, or canceled checks must be

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provided documenting that all payments have been made by the borrower in the month due for the previous 12 months.

  - If the account that the payment was remitted from is a joint account with another party, the payment history can only be represented to be acceptable as the borrower's payment history if the account shows a corresponding deposit from our borrower for consistent amounts equal to the amount of the mortgage payment.

To be eligible for a Cash-out Refinance the existing mortgage must have originated greater than six (6) months prior to application and the borrower must have a minimum of six (6) months of mortgage payments, prepayment is not allowed to meet the requirement.

- If the Mortgage on the subject Property is not reported on the Borrower's credit report or is not in the name of the Borrower, the Mortgagee must obtain a verification of Mortgage, bank statements, or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

Mortgage Forbearance

A Borrower who was granted mortgage payment forbearance must have:

- Completed the Forbearance Plan on the subject Property; and
- Made at least 12 consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan

Manufactured Home

If the Property is a Manufactured Home, it must have been permanently installed on a site for more than 12 months prior to Case Number assignment. FHA has provided additional clarification regarding the documentation that is eligible to confirm the manufactured home was permanently installed and affixed to a permanent foundation in a way that makes it part of the real property:

- Inspection | Structural that provides the date of installation,
- Manufactured Home Installation Certification (HUD-309),
- Appraisal Report,
- Certification by a licensed engineer or architect or an inspection by the state administrative agency that inspects Manufactured Homes for compliance,

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- Title affixture documentation or title company certification

For additional guidance related to manufactured homes titled as real property, refer to the following resources:

- Titling Manufactured Homes as Real Property
- Resource | Manufactured Home Agency Titling Contacts by State

Rate and Term Refinances

Occupancy Requirements

Cardinal offers Rate and Term refinance transactions on owner-occupied principal residences only.

Required Documentation

The borrower's employment documentation or utility bills must be provided to evidence the borrower currently occupies the property and to determine the length of time the borrower has occupied the subject property as their principal residence.

Evidence that the borrower has occupied the subject as a primary residence for twelve months (or owner-occupied since acquisition if acquired within twelve months) prior to Case Number Assignment is required for maximum financing; refer to the Maximum Loan-to-Value Ratio section for maximum financing determination.

Payment History Requirements

(TOTAL)

The Borrower must have made all payments for all Mortgages within the month due for the previous 12 consecutive months, or since the Borrower obtained the Mortgages, whichever is less. Additionally, the payments for all Mortgages secured by the subject Property must have been paid within the month due for the month prior to mortgage Disbursement.

The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:

- Three or more late payments of greater than 30 days;

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- One or more late payments of 60 days plus one or more 30-day late payments; or
- One payment greater than 90 days late; or
- The borrower has made less than 3 consecutive payments since the completion of a mortgage forbearance plan.

Required Documentation

If the Mortgage on the subject Property is not reported on the Borrower's credit report, the Mortgagee must obtain a verification of Mortgage, bank statements, or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

Refer to the Subject Property Mortgage Debt not in Borrower's Name section when a borrower is vested on the title to the subject property, but not on the existing mortgage.

(Manual)

For mortgages with less than six months of mortgage payment history, the borrower must have made all payments within the month due.

For mortgages with greater than six months' history, the borrower must have made all mortgage payments 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.

The borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement.

Required Documentation

- If the Mortgage on the subject Property is not reported on the Borrower's credit report, the Mortgagee must obtain a verification of Mortgage to evidence payment history for the previous 12 months.
- If the mortgage obligation on the subject property is not reported on the borrower's credit report, yet the borrower is an obligor on the Note, a verification of mortgage, bank statements, or other documentation to evidence that all payments have been made by the borrower in the month due for the previous 12 months is required.

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Maximum Loan-to-Value Ratio

The maximum LTV for a Rate and Term refinance is:

- 97.75% for Principal Residences that have been owner-occupied for previous 12 months, OR owner-occupied since acquisition if acquired within 12 months, at Case Number Assignment;
- 85% for a borrower who has occupied the subject property as their Principal Residence for fewer than 12 months prior to the Case Number Assignment, or if owned less than 12 months, has not occupied the property for that entire period of ownership.

Cash Back at Closing

Estimates of existing debts and costs may be used in calculating the maximum mortgage amount to the extent that the actual debts and costs do not result in the borrower receiving greater than $500 cash back at mortgage disbursement.

Cash to the borrower resulting from the refund of borrowers' unused escrow balance from the previous mortgage must not be considered in the $500 cash back limit whether received at or subsequent to mortgage disbursement.

Excess Cash Back

When the estimated costs utilized in calculating the maximum mortgage amount result in greater than $500 cash back to the borrower at mortgage disbursement, DE underwriters may reduce the borrower's outstanding principal balance to satisfy the $500 cash back requirement. The DE underwriter must submit the mortgage for endorsement at the reduced principal amount.

Calculating Maximum Mortgage Amount

The maximum mortgage amount for a Rate and Term refinance is the lesser of:

- The Nationwide Mortgage Limit;
- The maximum LTV based on the maximum LTV ratio: or
- The sum of existing debt and costs associated with the transaction as follows:

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- Existing debt includes:
  - The unpaid principal balance of the first mortgage as of the month prior to mortgage disbursement;
  - The unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage disbursement;
  - The unpaid principal balance of any junior liens over 12 months old as of the date of mortgage disbursement;
  - If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new mortgage;
  - Interest due on the existing mortgage(s);
  - The unpaid principal balance of any unpaid PACE obligation;
  - Mortgage Insurance Premium (MIP) due on existing mortgage;
  - Any prepayment penalties assessed;
  - Late charges; and escrow shortages;
- Allowed costs include all borrower paid costs associated with the new mortgage; and
- Any borrower-paid repairs required by the appraisal;

Less any refund of the Upfront Mortgage Insurance Premium (UFMIP), if financed in the original mortgage

Partial Claim

A Partial Claim is an interest-free, second mortgage with HUD. Monthly payments are not required, however, partial claims are due and payable in full when the first of the following events occur:

- The maturity of the Mortgage,

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- Sale of the Property,
- The Payoff of the Mortgage, or
- If provided for under the Partial Claim Note, the termination of FHA insurance
- HUD will agree to subordinate the Partial Claim note to an FHA-Streamline Refinance only; Partial Claims may not be subordinated on non-Streamline Refinance transactions.

HUD does not forgive, negotiate or reduce the amount owed on the partial claim. In order to have the lien released, payment in full must be remitted to HUD.

Partial claims recorded on the title must meet seasoning requirements for junior mortgages when determining whether a transaction may be treated as a rate and term refinance.

Documentation for the partial claim must be reviewed to determine if any modification to the original Note was made. If a modification was made, applicable Seasoning Requirements will apply.

Refinancing to Buy out Title Holder Equity

When the purpose of the new mortgage is to refinance an existing mortgage to buy out an existing title-holder's equity, the specified equity to be paid is considered property-related indebtedness and eligible to be included in the new mortgage calculation. The Mortgagee must obtain the divorce decree, settlement agreement, or other legally enforceable equity agreement to document the equity awarded to the title-holder.

Refer to Chapter 15 Texas Section 50(a)(6) & (a)(4) for guidance on an Owelty of Partition lien.

Refinancing to Pay off Recorded Land Contracts

When the purpose of the new Mortgage is to pay off an outstanding recorded land contract, the unpaid principal balance will be deemed to be the outstanding balance on the recorded land contract. Refer to the Land Contract section for additional information.

Texas Mechanic's Lien Contract

In order to refinance a mechanic's lien as a Rate and Term refinance in Texas, a Mechanic's Lien Contract (MLC), which is an agreement signed by the builder, the owner, and the owner's spouse **prior to commencement of construction**, must have been recorded in the real property records; the title commitment would identify the MLC.

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If the builder is only filing a Mechanic's Lien Affidavit, which is a document signed only by the builder claiming that the builder has not been paid for materials furnished and services rendered, this would not create a valid lien on homestead. As a result, the only way to place a valid lien on homestead to pay off the builder would be a TX50(a)(6) loan, which is ineligible utilizing FHA financing.

Consolidation, Extension and Modification Agreement (NY CEMA)

Sellers often document refinance mortgages secured by property located in New York State using a New York Consolidation, Extension, and Modification Agreement (the "NY CEMA"). The NY CEMA combines into one set of rights and obligations all the promises and agreements stated in existing Notes and Mortgages secured by the Mortgaged Premises, including, if new funds are advanced to the Borrower at the time of the consolidation, a new Note and Mortgage. The result is that the Borrower has one consolidated loan obligation that is paid in accordance with the terms of the NY CEMA.

Required Documentation

The following documentation must be provided:

- NY Consolidation, Extension and Modification Agreement (Form 3172)
- Original Note(s) – Original documents signed by the borrower
- Gap Note and Gap Mortgage, if applicable
- Consolidated Note – Original documents signed by the borrower
- Exhibit A – Listing of all Notes & Mortgages being consolidated, extended, and modified
- Exhibit B – Legal description of the subject property
- Exhibit C – Copy of the consolidated Note
- Exhibit D – Copy of the consolidated Mortgage

These transactions require delivery of the existing Note and Mortgage secured by the Mortgaged Premises to the new Document Custodian. In some cases, these documents cannot be obtained and a Loan Note Guarantee will be provided. If the existing Note and Mortgage cannot be provided, and only a Loan Note Guarantee can be offered, the transaction is ineligible for financing through Cardinal.

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Streamline Refinances

A Streamline Refinance may be used when the proceeds of the mortgage are used to pay off an existing FHA-insured first mortgage lien. Streamline Refinances must be manually underwritten. Streamline refinances may be either credit qualifying or non-credit qualifying. The following information is applicable to All Streamline Refinances.

Required Documentation

If the mortgage on the subject property is not reported in the borrower's credit report, a verification of mortgage (VOM) must be obtained to evidence payment history for the previous 12 months.

Seasoning Requirements

Ginnie Mae, the investor for FHA transactions, issued APM 17-06 on December 7, 2017, which addresses new Ginnie Mae requirements for FHA Cash-out refinance transactions and FHA Streamline transactions. The new Ginnie Mae requirements do not apply to FHA rate and term credit qualifying transactions. Subsequently, they issued APM 18-04 on May 30, 2018.

Forbearance and Loan Modification

Term	Definition
Forbearance	A Loan Forbearance is a change to one or more terms of a Borrower's Mortgage repayment agreement, *without* a change to the terms of the original Note. Forbearance Plans may allow for a period of reduced or suspended payments and may provide specific terms for repayment.
Loan Modification	A Loan Modification is a permanent change to the repayment terms of the original Note. A loan modification is not a new note, nor is it a replacement of the original note, but is simply an addendum to the original document, changing the terms as agreed. Modifications may include a change to the terms of repayment to reduce the monthly obligation, to extend the term of the original loan, to reduce an interest rate, and/or to forbear or reduce the principal balance.

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Seasoning

Several of the Ginnie Mae requirements are more restrictive than FHA; as such, both FHA and Ginnie Mae requirements will need to be met in order to ensure compliance. Refer to the Resource | Government Loan Seasoning Requirements document for detailed seasoning requirements.

Borrower Eligibility

Cardinal offers streamlined refinances on Primary Residences and Non-Owner Occupied properties. Non-owner occupied Properties and HUD-approved Secondary Residences are only eligible for Streamline Refinancing into a fixed rate Mortgage.

Evidence of Occupancy

The borrower's occupancy of the subject property as a primary residence must be validated. Acceptable methods of validation include employment documentation or utility bills to support occupancy of the subject; supporting documentation will typically reflect personal information that would only go to the borrower's primary residence.

One of the following must be provided to support occupancy:

- Paystub (Credit-Qualifying Streamline only)
- Written statement from the borrower's employer confirming the borrower's place of residence
    - Information related to income may not be disclosed on a non-credit qualifying streamline; if disclosed, the loan will be underwritten as a credit-qualifying streamline refinance
- Major utility bill reflecting mail address as subject address and usage that supports occupancy:
    - Phone billing statement
    - Internet billing statement
    - Television service billing statement (Cable bill)
    - Electric billing statement

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  - Gas billing statement
  - Documentation must be recently dated and reflect the borrower's name and subject property address.
- Direct electronic verification by a Third Party Verification (TPV) vendor verifying the Borrower's address is the same as that of the subject Property

Please Note: The LoanSafe Fraud Manager report is not an acceptable tool to support occupancy.

Net Tangible Benefit of Streamline Refinances

Streamline refinances require a validated net tangible benefit which results in a financial benefit to the borrower.

A net tangible benefit is met when the transaction results in one of the following:

- A reduced Combined Rate,
- A reduced term, or
- A change from an ARM to a fixed-rate or adjustable mortgage

Definitions

Reduction in Term refers to the reduction of the remaining amortization period of the existing Mortgage.

Combined Rate refers to the interest rate on the Mortgage plus the Mortgage Insurance Premium (MIP) rate. To calculate the benefit, the existing MIP rate plus the existing interest rate must be compared against the new MIP rate plus the new interest rate on the loan.

The existing interest rate may be located on the Mortgage Statement and the existing MIP rate may be located on the Refinance Authorization, as shown below:

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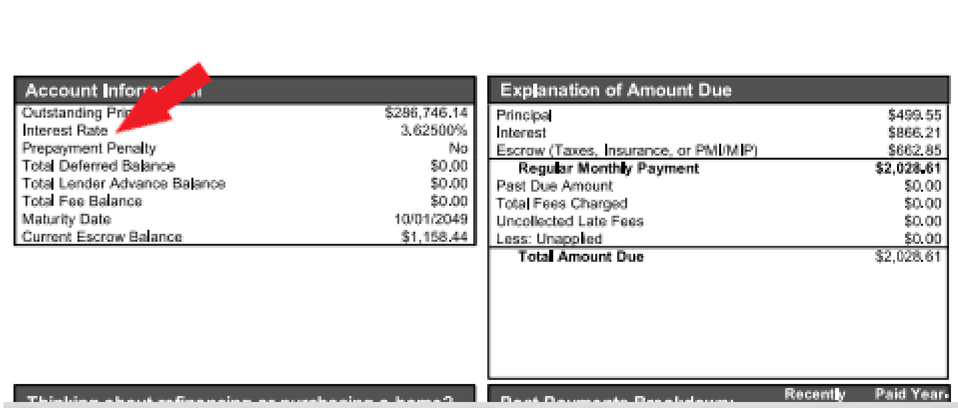
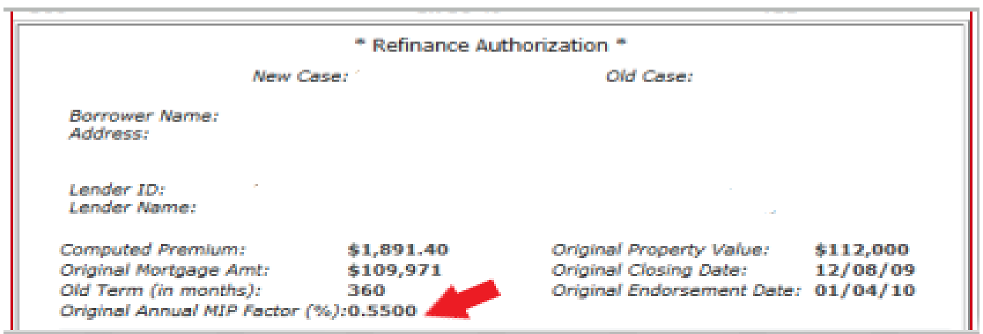


Account Infor...	
Outstanding Pri...	$286,746.14
Interest Rate	3.62500%
Prepayment Penalty	No
Total Deferred Balance	$0.00
Total Lender Advance Balance	$0.00
Total Fee Balance	$0.00
Maturity Date	10/01/2049
Current Escrow Balance	$1,158.44

Explanation of Amount Due	
Principal	$499.55
Interest	$866.21
Escrow (Taxes, Insurance, or PMI/MIP)	$662.85
Regular Monthly Payment	**$2,028.61**
Past Due Amount	$0.00
Total Fees Charged	$0.00
Uncollected Late Fees	$0.00
Less: Unapplied	$0.00
Total Amount Due	$2,028.61



* Refinance Authorization *

New Case: *Old Case:*

Borrower Name:
Address:

Lender ID:
Lender Name:

Computed Premium:	**$1,891.40**	*Original Property Value:*	**$112,000**
Original Mortgage Amt:	**$109,971**	*Original Closing Date:*	**12/08/09**
Old Term (in months):	**360**	*Original Endorsement Date:*	**01/04/10**
Original Annual MIP Factor (%):	**0.5500**		

Without a Reduction in Term or with a Term Reduction of Less than Three Years

The Mortgagee must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions without a reduction in term or with a reduction in term of less than three years.

Existing Loan	New Transaction Fixed Rate New Combined Rate	New Transaction Hybrid ARM New Combined Rate
Fixed Rate	At least 0.5 percentage points below the prior combined rate.	At least 2 percentage points below the prior Combined Rate.
Any ARM with less than 15 months to next payment change date	No more than 2 percentage points above the prior combined rate	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	No more than 2 percentage points above the prior combined rate.	At least 1 percentage point below the prior Combined Rate.

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With a Reduction in Term of Three Years or More

The Mortgagee must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions with a reduction in term of three years or more.

Additionally, the combined principal, interest, and MIP payment of the new Mortgage must not exceed the combined principal, interest, and MIP payment of the refinanced Mortgage by more than $50.

Existing Loan	New TransactionNew Loan Fixed Rate New Combined Rate	New Transaction Hybrid ARM New Combined Rate
Fixed Rate	Below the prior combined rate	N/A
Any ARM with less than 15 months to next payment change date	No more than 2 percentage points above the prior combined rate	N/A
Any ARM with greater than or equal to 15 months to next payment change date	No more than 2 percentage points above the prior combined rate.	N/A

Limited Denial Participation and SAM Exclusion Lists

Both the HUD Limited Denial of Participation (LDP) list and the System for Award Management (SAM) must be checked to ensure that the borrower is eligible for an FHA mortgage loan.

Borrower Additions to Title

Individuals may be added to the title and mortgage on a non-credit qualifying Streamline Refinance without a creditworthiness review.

Funds to Close

If the funds to close exceed the total Mortgage Payment of the new Mortgage, the Mortgagee must verify the full amount of funds to close in accordance with the Assets section of this chapter, and they must meet FHA Sources of Funds requirements.

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Asset verification is required for both Credit-Qualifying and Non Credit-Qualifying streamline refinance transactions.

Maximum Mortgage Term

The maximum amortization period of a Streamline Refinance is limited to the lesser of:

- The remaining amortization period of the existing mortgage plus 12 years; or
- 30 years

Maximum Mortgage Calculation for Streamline Refinances

For owner-occupied Principal Residences and HUD-approved Secondary Residences, the maximum Base Loan Amount for Streamline Refinances is:

- The lesser of:
    - The outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; plus:
        - interest due on the existing Mortgage;
            - may include up to 2 months interest charged by an existing lender when the payoff is not received on the first day of the month; may not include delinquent interest. Note: Octane may not permit up to a full two months interest in all cases*
        - late charges;
        - escrow shortages; and
        - MIP due on existing Mortgage; *or*
    - The original principal balance of the existing Mortgage (including financed UFMIP);
- Less any refund of UFMIP

For Investment Properties, the maximum Base Loan Amount for Streamline Refinances is:

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- The lesser of:
  - The outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; *or*
  - The original principal balance of the existing Mortgage (including financed UFMIP);
- Less any refund of UFMIP

*Octane will calculate interest as follows:

  - Interest will only be charged through the loan payoff date on a per diem basis. Interest will not be charged beyond the loan payoff date (i.e. for the entire month).

Maximum CLTV Ratio and Subordinate Financing

Existing subordinate financing, in place at the time of Case Number Assignment, must be re-subordinated to the Streamline Refinance.

New Subordinate financing is permitted only where the proceeds of the subordinate financing are used to:

- Reduce the principal amount of the existing FHA-insured mortgage, or
- Finance the origination fees, other closing costs, or discount points associated with the refinance

There is no maximum CLTV. If there is an existing HUD subordinate lien, the National Servicing Center must be contacted for the processing of the subordination.

LTV/CLTV Calculation

The LTV/CLTV is based on the original appraised value reported into FHA Connection as verified with a current FHA Refinance Netting Authorization.

Appraisal

Appraisals are not required on Streamline Refinances. The receipt or possession of an appraisal by the DE underwriter does not affect the eligibility or maximum mortgage amount on Streamline Refinances.

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- If an appraisal is present in the loan file, no appraisal review is required.
    - **Note:** An appraisal may not be obtained to roll in closing costs to the loan amount. A full Rate and Term Refinance would need to be selected in order to include closing costs and prepaids in the loan amount.
- If the appraisal shows the property listed for sale within the most recent six months, the listing must be canceled at least one day prior to the TRID Application Date. A copy of the canceled/expired listing should be included in the file.

Although review of the property is not required, all applicable insurance requirements including those for properties located in a Condominium project must be met.

Cash Back at Closing

Estimates of existing debts and costs may be used in calculating the maximum mortgage amount to the extent that the actual debts and costs do not result in the borrower receiving greater than $500 cash back at mortgage disbursement.

Cash to the borrower resulting from the refund of borrowers' unused escrow balance from the previous mortgage must not be considered in the $500 cash back limit whether received at or subsequent to mortgage disbursement.

Excess Cash Back

When the estimated costs utilized in calculating the maximum mortgage amount result in greater than $500 cash back to the borrower at mortgage disbursement, DE underwriters may reduce the borrower's outstanding principal balance to satisfy the $500 cash back requirement. The DE underwriter must submit the mortgage for endorsement at the reduced principal amount.

Streamline Refinance Non-Credit Qualifying

Borrower Eligibility

A borrower is eligible for a Streamline Refinance without credit qualification if all borrowers on the existing mortgage remain as borrowers on the new mortgage. The only applicable exceptions are in the case of divorce, legal separation, or death where:

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- The divorce decree or legal separation agreement awarded the property and responsibility for payment to the remaining borrower, if applicable; and
- The remaining borrower can demonstrate that they have made the mortgage payments for a minimum of six months prior to Case Number Assignment.

Mortgages that have been assumed are eligible provided the previous borrower was released from liability.

Citizenship

Non-Credit Qualifying Streamline Refinances do not require verification of the borrower's Citizenship and Immigration Status or Residency

Note: Non-Credit Qualifying Streamline Refinances will require verification of the borrower's Citizenship and Immigration Status or Residency with Case Number Assignment date on or after 5.25.25.

Occupancy

Streamline refinances of currently insured FHA loans where the current occupancy is an investment property or a second home are acceptable if there is a net tangible benefit to the borrower.

Borrower Credit Reports

- For Non-Credit Qualifying Streamline Refinance transactions with a credit score, a credit report is required.
- For Non-Credit Qualifying Streamline Refinance transactions without a credit score, a credit report is not required, however, an acceptable mortgage rating must still be documented.

Payment History Requirements - Non-Credit Qualifying

- 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.

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- 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.

Streamline Refinance Credit Qualifying

Borrower Eligibility

At least one borrower from the existing mortgage must remain as a borrower on the new mortgage.

Occupancy

Streamline refinances of currently insured FHA loans where the current occupancy is an investment property or a second home are acceptable if there is a net tangible benefit to the borrower.

Credit Underwriting

In addition to the requirements in this section, credit qualifying Streamline Refinances must meet all credit qualifying requirements of Manual Underwriting, except for any requirements for appraisals or LTV calculations.

Borrower Credit Reports

A credit report is required for the credit qualifying Streamline Refinance.

Payment History Requirements - Credit Qualifying

- For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.
- For all mortgages on all properties with greater than six months of Mortgage Payment history, the Borrower must have made all Mortgage Payments 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.
- 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.

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See the FHA product profile for credit score and debt to income ratio restrictions. Refer to Manual Underwriting Matrix and Compensating Factors sections of this guide for additional information.

Principal Curtailment Policy

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. There are circumstances that arise during the loan process that cause excessive cash back to the borrower or that affect the maximum loan amount calculation for certain programs. The most common circumstances are an excess of seller and/or lender credits and borrowers receiving excess cash back than is permitted for a limited / rate term refinance.

Premium Pricing

- Premium pricing refers to situations when a borrower selects a higher interest rate on a loan in exchange for a lender credit. The lender credit cannot be used to fund any portion of the borrower's down payment, and should not exceed the amount needed to offset the borrower's closing costs.
- Premium Pricing is not included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder, or developer.
- Any excess lender credit required to be returned to the borrower in accordance with applicable regulatory requirements is considered an overpayment of fees and charges, and may be applied as a principal curtailment or returned in cash to the borrower.

In these situations, and under certain circumstances, a principal reduction may be allowed to cure the specific issue. Principal Curtailments are also known as Principal Reductions for the purpose of this policy.

- FHA:
  - Subject to a maximum principal reduction of 1% of the loan amount, excluding any allowable cash-back to the borrower per HUD guidelines

For curtailments made at the time of closing, the amount must be clearly documented on the settlement statement/CD.

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Secondary Financing

Secondary Financing is any financing other than the first mortgage that creates a lien against the subject property. Any such financing that does create a lien against the property is not considered a gift or a grant even if it does not require regular payments or has other features forgiving the debt. Secondary financing must meet FHA's eligibility requirements. The below is intended as general guidance, if there is a conflict between the guidance below and the FHA handbook, mortgagee letters, or other communication from HUD, that information takes precedence.

Down Payment Assistance Program (DAP)

Down payment assistance programs (DAPs) may be provided by a government agency or an eligible nonprofit agency considered an instrumentality of the government.

Neither Cardinal nor FHA "approves" DAPs administered by charitable organizations such as nonprofits.

A gift from a charitable organization must meet FHA requirements and the transfer of funds must be properly documented. Nonprofit entities may not provide gifts to pay off installment loans, credit cards, collections, judgments, liens, similar debts.

Gifts from Charitable Organizations

For down payment assistance from a charitable organization, obtain evidence the charitable organization has tax exempt status as per section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to IRC section 501(c)(3).

The IRS Exempt Organization Select Check tool must be used to verify the charitable organization is eligible to receive tax-deductible charitable contributions.

Gifts from Charitable Organizations without Federal Tax-Exempt Status

If a charitable organization has lost or given up its federal tax-exempt status, a gift towards the borrower's down payment is acceptable to FHA only if both of the following requirements are met:

- The gift is made to the borrower and is properly documented in accordance with FHA requirements; and

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- The borrower entered into a sales contract (including any amendments to the purchase price) on or before the date IRS officially announced the charitable organization's tax-exempt status was terminated.

Secondary Financing General Requirements

Grace Period

The Secondary Financing must provide for a reasonable grace period before a late charge becomes due or foreclosure proceedings are begun in the event of default.

Purpose and Proceeds

Purchases

Proceeds from the second mortgage may be used for closing costs, prepaids, and/or down payment. Secondary Financing may not be used to pay any portion of the excess of the purchase price over the appraised value. Closing costs related to the down payment assistance Secondary Financing program(s) may only be included in the second lien.

Refinances

A new second mortgage on a Cash-out refinance may be used to cover closing costs, prepaids, and/or pay down the outstanding existing mortgage(s) to LTV/CLTV maximum.

- Existing junior liens, regardless of seasoning, may re-subordinate to the FHA loan provided the total indebtedness does not exceed the applicable CLTV permitted for the type of Refinance.
- New second mortgages are not allowed on Rate and Term and Streamline Refinances

Qualifying

The borrower must qualify with all junior lien payment(s), which cannot exceed the borrower's reasonable ability to repay.

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Simultaneous Closing

Soft or silent liens that are secured against the property that have no scheduled repayments and the debt is forgiven over a period of time. Any soft or silent liens must be reflected on the closing disclosure, title commitments and be approved by Cardinal prior to issuance of the closing disclosure.

Governmental Agencies and HOPE Grantee Secondary Financing

A Governmental Entity refers to any federal, state, or local government agency or instrumentality. FHA does not maintain a list of governmental entities.

An Instrumentality of Government refers to an entity that was established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated law (statute or court opinion) and does not have an IRS 501(c)(3) status.

Homeownership and Opportunity for People Everywhere (HOPE) refers to an Entity designated in the homeownership plan submitted by a borrower for an implementation grant under the HOPE program.

A government entity may provide for the borrower's minimum required investment through one of its homeownership programs when acting in their governmental capacity.

FHA will insure a first mortgage on a property that has a second mortgage or lien made or held by a Government Entity, provided that:

- The secondary financing is disclosed at the time of application;
- No costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- The insured first mortgage does not exceed the FHA Nationwide Mortgage Limit for the area in which the property is located;
- The secondary financing payments are included in the total mortgage payment;
- Any secondary financing of the borrower's minimum required investment fully complies with the additional requirements set forth in the Handbook;

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- The secondary financing does not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing; and
- The second lien does not provide for a balloon payment within 10 years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- The functions performed are limited to the Governmental Entity's secondary financing program; and
- The secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the mortgagee.

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

Documentation Required

The mortgagee must obtain from the provider of any secondary financing:

- Documentation showing the amount of funds provided to the borrower for each transaction;
- Copies of the Mortgage and Note; and
- A letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured mortgage, signed by an authorized official and containing the following information:
    - The FHA Case Number for the first mortgage;
    - The complete property address;
    - The name, address, and Tax ID for the nonprofit;
    - The name of the borrower(s) to whom the nonprofit is providing secondary financing;

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    - The amount and purpose for the secondary financing provided to the borrower; and
    - A statement indicating whether the secondary financing:
        - Will close in the name of the Governmental Entity; or
        - Will be closed in the name of the nonprofit and held by the Governmental Entity.
- Where a nonprofit assisting a Governmental Entity with its secondary financing programs is not a HUD-approved Nonprofit, a documented agreement must be provided that:
    - The functions performed by the nonprofit are limited to the Governmental Entity's secondary financing program; and
    - The secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the mortgagee.
- Where a nonprofit meets the criteria identified in Section 115 of the IRC for exclusion of taxation, the nonprofit must provide one of the following:
    - A letter from the organization's auditor;
    - A written statement from the organization's General Counsel, as an official of the organization;
    - A determination or ruling letter issued by the IRS; or
    - An equivalent document evidencing Section 115 status

Prior to Closing/At Closing

A fully executed Closing Disclosure or similar legal documents along with the recorded Secondary Financing documents must be provided to Cardinal.

These documents may either be provided either prior to closing, or to the settlement agent at the time of closing.

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When the secondary financing is used for the borrower's minimum required investment, obtain the following documentation:

- Proof that the funds were sourced from the government entity's account with any of the following: canceled checks, or evidence of wire transfer, or other authorized draw request showing that prior to or at the time of closing the governmental entity had authorized a draw of the funds provided.

Documentation of the actual transfer of funds is required to prove the funds were not provided by a prohibited source.

Non-Profit Entity Secondary Financing

Cardinal requires Non-Profit entities to be approved by HUD in order for the borrower to use down payment assistance or secondary lien financing as part of the loan transaction.

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a HUD-approved Nonprofit, provided that:

- The secondary financing is disclosed at the time of application;
- No costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- The secondary financing payments must be included in the total Mortgage Payment;
- The secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- The secondary financing may not be used to meet the Borrower's MRI (unless the non-profit is an instrumentality - see above) ;
- There is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and
- The second lien may not provide for a balloon payment within 10 years from the date of execution.

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- When a nonprofit closes Secondary Financing in its own name, the nonprofit must have both FHA approval and placement in HUD Nonprofits Roster even if the Secondary Financing will be held by the Governmental Entity.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- Specifies the functions performed are within the Governmental Entity's secondary financing program; and
- Names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust)

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit. The Mortgagee must enter information on HUD-approved Nonprofits into FHA Connection (FHAC), as applicable.

Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- Prior to approval: the signed/executed loan approval(s) must be obtained to verify the terms and conditions of the Secondary Financing loan(s)

- A fully executed Closing Disclosure or similar legal documents along with the recorded Secondary Financing documents is required. These documents may be provided directly to Cardinal prior to closing, or by the settlement agent with the closing package

- Copies of the Mortgage and Note

The Mortgagee must enter information into FHAC on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

Family Member Secondary Financing

Family members of the borrower may provide a second lien to the borrower if the Family member meets the requirements of the Identity of Interest section of this guide.

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The total of base loan amount and the Secondary Financing may not exceed 100% CLTV of the Adjusted Value of the subject property plus:

- The lien may not have a prepayment penalty
- The noteholder may only be the family member
- The second lien cannot have a balloon payment within 10 years from the Note execution date.
- The proposed FHA mortgage may not finance any cost associated with the Secondary Financing.
- The borrower may receive no cash back at closing from the Secondary Financing proceeds except for a refund of documented earnest money deposit or other documented borrower costs paid outside of closing.

(TOTAL and Manual)

Family members of the borrower may provide a second lien to the borrower if the Family member meets the requirements of the Identity of Interest section.

Additionally:

- The secondary financing is disclosed at the time of application;
- No costs associated with the secondary financing are financed into the FHA insured first Mortgage;
- The secondary financing payments must be included in the total Mortgage Payment;
- The secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- The secondary financing may be used to meet the Borrower's MRI;
- The CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value;
- The second lien may not provide for a balloon payment within 10 years from the date of execution;
- Any periodic payments are level and monthly;
- There is no prepayment penalty;
- If the Family Member providing the secondary financing borrows the funds, the lending source may not be an entity with an Identity of Interest in the sale of the Property, such as the:

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  - Seller;
  - Builder;
  - Loan originator; or
  - Real estate agent;
- Mortgage companies with retail banking Affiliates may have the Affiliate lend the funds to the Family Member. However, the terms and conditions of the loan to the Family Member cannot be more favorable than they would be for any other Borrowers;
- If funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- If the loan from the Family Member is secured by the subject Property, only the Family Member provider may be the Note holder; and
- The secondary financing provided by the Family Member must not be transferred to another entity at or subsequent to closing

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

Required Documentation

- Documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- Copies of the Mortgage and Note

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, the Family Member must provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Mortgagee.

Secondary Financing - Any Other Sources

Secondary financing from sources other than Governmental Entities, Approved Nonprofits and family members may be used if the requirements below are met. Secondary financing from these sources which include; private individuals other than family or private organizations may not be used as part of the borrower's minimum required investment.

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- The sum of the proposed FHA base loan and the Secondary Financing must not exceed FHA's nationwide mortgage Limit for the area where the property is located.
- The CLTV of the FHA base loan and Secondary Financing amount cannot exceed the FHA LTV limit for the transaction type
- There cannot be a prepayment penalty if 30 days advance of payoff is given to the noteholders.
- The second lien cannot have a balloon payment within 10 years from the Note execution date.
- The proposed FHA mortgage may not finance any cost associated with the Secondary Financing.
- The borrower may not receive cash back at closing from the Secondary Financing proceeds except for a refund of documented earnest money deposit or other documented borrower costs paid outside of closing.

Note: Homeowner Benefit Agreements are a contract that gives an applicable realty company the exclusive right to list and sell a homeowner's property, if and when they choose to sell, for a specified period (up to 40 years).

- A Memorandum of Homeowner Benefit Agreement is recorded and acts as a lien against the property.
- This type of agreement may be re-subordinated if state law allows, and if the title company confirms that they accept the subordination and Cardinal will remain in first lien position. Otherwise, the lien must be released.

Prior to Approval

- Obtain a notarized copy of the Note or similar written agreement, which provides the Secondary Financing terms and conditions.
- Document the amount of funds provided and the source of the funds.
- If the individual borrowed the funds, evidence that the funds are from an acceptable source, not a party to the transaction is required.

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If the Secondary Financing will be secured against the property, a copy of the documents must be provided prior to closing and the documents must be recorded at closing by the settlement agent and returned with the closing package.

Underwriting

All transactions must be scored through TOTAL Mortgage Scorecard, except Streamline Refinance transactions, assumptions, and Mortgages made to nonprofit/Governmental Entity.

For loans receiving an Approve/Accept - Eligible, the reduced documentation requirements may be used in underwriting the transaction unless HUD requires additional documentation. The DE underwriter may at their discretion ask for additional documentation in circumstances where more information or a further explanation is required.

Manual Underwriting and/or Downgrades

DE underwriters are required to manually downgrade and underwrite loans in cases where the AUS provided an Accept / Approve recommendation if:

- The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard (information discovered must be analyzed regardless of the age of the event);
    - If the loan file contains evidence of a judgment against the borrower and that judgment is unable to be read by TOTAL Mortgage Scorecard, the file should be manually downgraded.
    - To allow AUS to read the judgment, Declarations item G must be marked 'Yes' and DU must be re-run.
        - If the findings now address the judgment and an Approve Eligible recommendation is received, the loan does not need to be manually downgraded.

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- If the new DU findings do not address the judgment, the loan must be manually downgraded
- Note: This option is eligible for DU only. LPA transactions will not read the modification to the Declarations.

- Additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage (this includes delinquent child support that is not reporting on credit);
- The borrower has $1,000 or more collectively in Disputed Accounts;
  - Reference Payoff of Derogatory Disputed Accounts for requirements if a disputed derogatory account is being paid off during the loan process
- The date of the borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of the Case Number Assignment;
- The Case Number Assignment date is within three years of the date of the transfer of title through a pre-foreclosure / short sale;
- The Case Number Assignment date is within three years of the date of the transfer of title through a foreclosure sale or deed-in-lieu of foreclosure;
- The mortgage payment history, for any mortgage trade line reported on the credit report used to score the application, requires a downgrade as defined in the Housing Obligations/Mortgage Payment History below;
- The borrower has Undisclosed Mortgage Debt that requires a downgrade due to the mortgage payment history; or
- The business income for a borrower shows a greater than 20% decline over the analysis period
  - For self-employed Borrowers with a COVID-19 Related Economic Event that have since regained income at a level *less than* 80 percent of their income prior to the COVID-19 Related Economic Event, the Mortgagee must downgrade and manually underwrite.

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    - Note: manually underwritten loans for self-employed borrowers require a business credit report to be generated for all Corporations and S-Corporations.

Housing Obligations / Mortgage Payment History

The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the 12 months prior to Case Number assignment reflects: :

- Purchase and No Cash-out transactions
    - Three or more mortgage payments of greater than 30 Days; or
    - One or more late payments of 60 Days plus one or more 30-Day late payments; or
    - One payment greater than 90 Days late, or
    - The borrower has made less than 3 consecutive payments since completion of a mortgage forbearance plan
- Cash-out transactions
    - A current delinquency; or
    - Any delinquency within 12 months of the Case Number Assignment date

Note: A mortgage that has been modified must utilize the payment history in accordance with the modification agreement to analyze any late payments in the most recent 12 months. The payment history following the modification date may reflect late payments as long as the most recent 12 months reflect an acceptable payment history. Scorecard or Manual guidelines must be followed.

Manually underwritten files require standard, full documentation, the reduced documentation allowed when processing a loan through an AUS is no longer allowed. Manually underwritten loans require documented compensating factors in addition to meeting the standard underwriting criteria for the transaction type.

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Extenuating Circumstances

Extenuating circumstances are nonrecurring or isolated events that are beyond the borrower's control which result in a sudden, significant, and prolonged reduction in income, or a catastrophic increase in financial obligations.

FHA permits extenuating circumstances in consideration of a shortened waiting period when determining seasoning periods for a credit event; allowable extenuating circumstances are defined by the event itself.

Examples of extenuating circumstances that may be considered acceptable include:

- A serious illness with a corresponding loss of income
- Death of a wage earner with a corresponding loss of income
- Severe and sudden medical expenses

Acceptable extenuating circumstances do not include:

- Divorce
- The inability to sell a property due to a job transfer or relocation to another area In the case of Short Sale, Foreclosure or Deed-in-Lieu

Documentation

The DE underwriter must obtain a written explanation from the borrower. The written explanation must:

- Support the claims of extenuating circumstances,
- Confirm the nature of the event that led to the credit-related action,
- Illustrate that the borrower had no reasonable options other than to default on his or her financial obligations, and
- Demonstrate the events were beyond the borrower's control and are not likely to reoccur

The DE underwriter must obtain documentation supporting the written letter of explanation from the borrower. The written explanation and supporting documentation must be consistent with the derogatory credit on the credit report (e.g. type, dates).

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Documentation that may be used to support the claim of an extenuating circumstance include:

- Insurance Claim Settlement,
- Property listing agreement,
- Lease Agreement,
- Copy of a divorce decree,
- Death Certificate,
- Notice of job layoffs, or job severance papers

The underwriter must provide, as part of the final underwriting decision, an analysis explaining the rationale for making the credit exception. Extenuating Circumstance exceptions are not required to be submitted for a Credit Review.

Compensating Factors

Qualifying Ratios

Loans receiving an AUS Total Scorecard Approve/Accept Eligible may follow the debt to income requirements in the findings with no additional compensating factors. The maximum housing ratio and debt ratio applicable to manually underwritten mortgages are summarized in the matrix below.

The qualifying ratios for any borrowers with no credit score are computed using income only from borrowers occupying the property and obligated on the mortgage. Non-occupant co-borrower income may not be included.

Decision Score	Maximum Ratios	Compensating Factors
• < 580, or • No Credit, or	31/43	N/A; no exceptions to DTI restriction at 43% and may not use compensating factors
580 and above	31/43	No compensating factors required
580 and above	37/47	**One** of the following: • verified and documented cash Reserves;

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		• minimal increase in housing payment; or • residual income
580 and above	40/40	No discretionary debt
580 and above	40/50	**Two** of the following: • verified and documented cash Reserves; • minimal increase in housing payment; • significant additional income not reflected in Effective Income; and/or • residual income

See the FHA product snapshot for maximum ratios for the particular product and property type. Compensating factors cannot be used to justify an exception for insufficient residual income.

Compensating Factor	Description
Energy Efficient Home	New Construction in which: • The latest energy code standard that has been adopted by HUD through a Federal Register notice; • The applicable International Energy Conservation Code (IECC) year used by the state or local building code. Existing Construction in which: • Homes that currently score a "6" or higher on the Home Energy Score scale • Homes where documented cost-effective energy improvements, as identified in the Home Energy Score Report, would increase a home's score to a "6" or higher are completed prior to closing, or in association with FHA's 203(k), Weatherization, EEM, or Solar and Wind programs
No Discretionary Debt	No discretionary debt may be cited as a compensating factor subject to the following requirements: The borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly. The credit report shows established credit lines in the borrower's name open for at least six months; and

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	The borrower can document that these accounts have been paid off in full monthly for at least the past six months. Note: borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the borrower's name but for which they are an authorized user does not qualify under this criterion
Significant Additional Income Not Reflected in Effective Income	Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements: Verification and documentation that the borrower has received this income for at least one year, and it will likely continue; and The income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47. Note: Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion. This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50
Minimal Housing Expense Increase	A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements: • The new total monthly mortgage payment does not exceed the current total monthly housing payment by more than $100 or 5 percent, whichever is less; and • There is a documented 12 month housing payment history with no more than one 30 Day late payment • For Cash-out transactions all payments on the mortgage being refinanced must have been made within the month due. Note: If the borrower has no current housing payment this compensating factor is not applicable. The Current Total Monthly Housing Payment refers to the borrower's current total Mortgage payment or current total monthly rent obligation.

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Substantial Cash Reserves	Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements. Reserves are equal to or exceed three total monthly Mortgage payments (one and two units); or Reserves are equal to or exceed six total monthly Mortgage payments (three and four units). Reserves are calculated as the borrower's total assets less: The total funds required to close the mortgage; • Gifts; • Borrowed funds; and • Cash received at closing in a Cash-out refinance transaction or incidental cash received at closing in the mortgage transaction

Payment Shock

Although FHA does not provide specific requirements surrounding payment shock, an increase in the borrower's housing expense should be considered when assessing the overall risk of the loan.

Calculation

Payment shock is expressed as a percentage, determined by dividing the proposed housing expense by the present housing payment.

Example:

- Proposed Housing Payment = $1,400
- Present Housing Payment = $950
- $1400/$950 = 1.46
- 1.47 – 1.00 = .47
- .47 x 100 = 47 (47% increase)

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Example:

- Proposed Housing Payment = $1,400
- Present Housing Payment = $650
- $1,400/$650 = 2.15
- 2.15 – 1.00 = 1.15
- 1.15 x 100 = 115 (115% increase)

It is not necessary to calculate payment shock when the borrower's proposed housing payment is less than their present housing payment.

Payment Shock cannot be used as a compensating factor if the borrower's current housing arrangement is rent-free.

Residual Income

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) Lenders Handbook - VA Pamphlet 26-7, Chapter 4.9 b and e.

Residual income is calculated as total Effective Income of all occupying borrowers less:

- State income taxes;
- Federal income taxes;
- Municipal or other income taxes;
- Retirement or Social Security;
- Total fixed payment;
- Estimated maintenance and utilities;

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- Job-related expenses (e.g., child care); and
- The amount of the Gross Up of any Non-Taxable Income.

A childcare letter must be obtained for all children 12 years or younger and must include the cost of the child care along with the provider's name and address. Child care expenses may be excluded from residual income calculation if only one spouse is listed on the loan obligation and a letter of explanation is obtained.

Federal and state tax returns from the most recent tax year must be used to document state and local taxes, retirement, Social Security, and Medicare. If tax returns are not available, current pay stubs may be used.

For estimated maintenance and utilities, multiply the Gross Living Area of the property by the maintenance and utility factor found in the Lender's Handbook - VA Pamphlet 26-7. The amount is currently $0.14 per square foot of gross living area.

Income that cannot be documented per FHA guidelines for Effective Income cannot be used.

To use residual income as a compensating factor, all members of the household of the occupying borrower must be counted without regard to the nature of their relationship and without regard to whether they are joining on title or the Note.

Household member(s) may be omitted from the family size if he/she can sufficiently document verifying that he/she is fully supported by an income source not included as effective income. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

Cardinal reserves the right to request additional information to document family size to effectively calculate residual income.

Minimal Residual Income by Region					
	Family Size	Northeast	Midwest	South	West
Loan Amounts < $80,000	1	$390	$382	$382	$425
	2	$654	$641	$641	$713
	3	$788	$772	$722	$859

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	4	$888	$868	$868	$967
	5	$921	$902	$902	$1,004
	More than 5	Add $75 for each family member up to a total of 7			

Minimal Residual Income by Region					
Loan Amounts > $80,000	Family Size	Northeast	Midwest	South	West
	1	$450	$441	$441	$491
	2	$755	$738	$738	$823
	3	$909	$889	$889	$990
	4	$1,025	$1,003	$1,003	$1,117
	5	$1,062	$1,039	$1,039	$1,158
	More than 5	Add $80 for each family member up to a total of 7			

Geographic Regions	
North East	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
Midwest	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
South	Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia, West Virginia
West	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

Building on Own Land

Building on Own Land refers to the permanent financing of a newly constructed dwelling on land owned by the Borrower and may include the extinguishing of any construction loans.

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Eligibility

The Borrower must have contracted with a builder to construct the dwelling. The builder must be a licensed general contractor. The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

Calculating Maximum Mortgage Amount

The lesser of the appraised value or the documented Acquisition Cost must be used to determine the Adjusted Value.

The maximum mortgage amount is calculated using the appropriate purchase Loan-toValue (LTV) percentage of the lesser of the appraised value or the documented Acquisition Cost.

The documented Acquisition Cost of the Property includes:

- The builder's price or the sum of all subcontractor bids and materials;
- Borrower-paid options and construction costs not included in the builder's price to build;
- Interest and other costs associated with a construction loan obtained by the Borrower to fund construction, if applicable; and
- Either of the following:
  - The lesser of the cost of the land, or appraised value of the land, if the land is owned six months or less at Case Number Assignment; or
  - The appraised value of the land if the land has been owned for greater than six months at Case Number Assignment or was received as an acceptable gift.

For Manufactured Housing, the builder's price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer's lot to the installation site, and all on-site installation costs.

Minimum Required Investment

The Borrower may utilize any cash investment in the Acquisition Cost of the Property or land equity to satisfy the Minimum Required Investment in accordance with Calculating Maximum Mortgage Amount.

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Required Documentation

The underwriter must document that the cash investment was from an acceptable source of funds in accordance with TOTAL or Manual Underwriting requirements as applicable.

If the land was given as a gift to the Borrower, it must be verified that the donor was not a prohibited source. Standard gift documentation must be obtained for any gift of land.

The Mortgagee must obtain standard gift documentation with TOTAL or Manual Underwriting requirements for any gift of land.

Borrower's Additional Equity in the Property

The Borrower may not receive cash back from the additional equity in the Property, but the Borrower may replenish their own cash expenditures for any Borrower-paid extras over and above the contract specifications and any out-of-pocket expenses not included in the builder's price. The Mortgagee must obtain an itemization of the extras and expenses and the cost of each item.

Required Documentation

The date of purchase of the land must be documented by obtaining the Closing Disclosure or similar legal document. The Mortgagee must obtain evidence that the funds used to pay Borrower paid options were derived from an acceptable source. The Mortgagee must obtain an itemization of the options, expenses, and cost of each item.

The Mortgagee must comply with FHA's New Construction requirements located in Chapter 12 Property and Appraisal Requirements.

Since the borrower is in title to the property, the Closing Disclosure may be prepared as a refinance transaction subject to the requirements of the Consumer Finance Protection Bureau (CFPB) regulations. Further, Octane currently does not support closing a Building on Own Land transaction as a purchase.

- The amounts owing to a builder / contractor / land loan should be input as liabilities to be paid off at closing,
- Acquisition cost documentation should be put in the applicable Mortgage Statement smart documents,

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- The payoff smart documents should house the final payoffs due to builder / contractors / land payoff, as applicable.

203(h) Loan Program

Section 203(h) of the National Housing Act authorizes FHA to insure Mortgages to victims of a Presidentially-Declared Major Disaster Area (PDMDA) for the purchase or reconstruction of a Single Family Property.

Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program. Where 203(b) program guidance conflicts with the specific requirements on Section 203(h) Mortgages provided below, this specific guidance controls.

Eligible Transactions

Purchase transactions are currently available to qualifying renters/tenants and homeowners in Presidentially-Declared Major Disaster Areas (PDMDAs) and may have the ability to purchase a new home with zero-dollar down payment.

Refinance Transactions are not supported.

Automated Underwriting System (AUS)

The 203(h) Mortgages for Disaster Victims program is not currently supported by AUS and must be underwritten according to FHA's guidance for manually underwritten loans.

Eligibility Documentation Requirements

Documentation must be provided to verify that the borrower's previous residence (owned or rented) was in the disaster area, and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. If purchasing a new house, the house need not be located in the area where the previous house was located.

A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency (FEMA).

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The FHA Case Number must be assigned within one year of the date the PDMDA is declared, unless an additional period of eligibility is explicitly provided.

Underwriting

The Mortgagee should be as flexible as prudent decision making permits.

The Mortgagee is required to make every effort to obtain traditional documentation regarding employment, assets, and credit, and must document their attempts. Where traditional documentation is unavailable, the Mortgagee may use alternative documentation as outlined below. Where specific requirements are not provided below, the Mortgagee may use alternative documentation that is reasonable and prudent to rely upon in underwriting a Mortgage.

The Borrower is not required to make the Minimum Required Investment (MRI). The maximum LTV is 100% percent of the Adjusted Value.

Employment Verification

- Prior Employment Verification
  - If prior employment cannot be verified because records were destroyed by the disaster, and the borrower is in the same/similar field, then FHA will accept W-2s and tax returns from the Internal Revenue Service (IRS) to confirm prior employment and income.
- Short-Term Employment:
  - Short-term employment obtained following the disaster may be included in the calculation of Effective Income

Assets

If traditional asset documentation is not available, the Mortgagee may use statements downloaded from the Borrower's financial institution website to confirm the Borrower has sufficient assets to close the Mortgage.

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Housing Payment History

Late payments may be disregarded on a property that was destroyed or damaged in the disaster, where the late payments were a result of the disaster, and the Borrower was not three or more months delinquent on their Mortgage at the time of the disaster.

The Mortgagee may justify approval if the Borrower was three or more months delinquent if Extenuating Circumstances are documented by the Mortgagee.

Disaster-Related Derogatory Credit

Borrowers may be considered a satisfactory credit risk if the credit report indicates satisfactory credit prior to the disaster and any derogatory credit subsequent to the date of the disaster is directly related to the effects of the disaster.

Mortgage Payment on Destroyed Residence

When a Borrower is purchasing a new house, the Mortgagee may exclude the Mortgage Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities. To exclude the Mortgage Payments from the liabilities, the Mortgagee must:

- Obtain information that the Borrower is working with the servicing Mortgagee to appropriately address their mortgage obligation; and
- Apply any property insurance proceeds to the Mortgage of the damaged house

203(h) Appraisal Requirements when Combined with 203(b) Repair Escrow

Obtain an "as-is" appraisal and the appraisal must be marked as "Insurable." HUD's REO appraisal may be available at no charge. If the original HUD REO appraisal is available, a new appraisal may not be ordered when the sales price exceeds the "as-is" value specified on the HUD Management and Marketing (M&M)'s appraisal. If the M&M Contractor's appraisal is more than 120 days old, the lender may order an updated "as-is" appraisal. The original appraisal must be used if a valid sales contract was executed prior to the expiration date of the appraisal. A second appraisal may only be ordered under the following circumstances:

- If the current HUD REO appraisal has expired,

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- If there are material deficiencies with the current appraisal as determined by the DE underwriter, or
- The original HUD REO appraisal is not made available by the M&M Contractor

Note: The case # on the HUD M&M appraisal should not be changed if the original HUD REO appraisal was used.

Solar and Wind Technologies

The solar and wind technologies policy allows the Mortgagee to increase the Base Loan Amount to cover the cost and installation of new solar or wind energy system improvements made, or to be made, to the Property at the time of a purchase or refinance.

Eligible Property Types

- One to four-unit properties
- Manufactured homes
- Condominium units are ineligible for Solar and Wind Technologies

Eligible Programs and Transaction Types

Costs for new solar and wind energy systems may be added to an FHA-insured base Mortgage, for the following programs:

- Section 203(b)
  - Purchase transaction
  - Rate and Term refinance and
  - Simple Refinance
  - Not eligible for Cash-out Refinance
- Section 203(k) Rehabilitation Mortgage Insurance Program (refer to Chapter 22 | Construction & Renovation Lending Guide)
- Note: the Solar and Wind enhancement is available for Retail only at this time.

Eligible Solar and Wind Technologies

Active and passive solar systems, as well as wind-driven systems, are acceptable.

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Photovoltaic Systems

Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirements.

Wind Turbine for Residential Properties

A wind turbine must:

- Have a nameplate capacity of no more than 100 kilowatts;
- Have a performance and safety certification from:
  - The International Electrotechnical Commission (IEC) standards from an accredited product certification body; or
  - The American Wind Energy Association (AWEA) standards from the Small Wind Certification Council (SWCC) or a Nationally Recognized Testing Laboratory (NRTL); and
  - Be installed by an installer who has received either a North American Board of Certified Energy Practitioners Small Wind Installer Certification or small wind turbine installation training from an accredited training organization.

Title to Systems

The Borrower must own, not lease, solar or wind energy systems for the systems to be considered eligible improvements. Leased equipment and Solar Power Purchase Agreements (SPPA) may not be financed under any FHA Title II programs.

Maximum Mortgage Amount

Purchase

- Compute the Adjusted Value by using the purchase price excluding the cost and installation of the solar or wind technology system and the Property Value excluding the cost and installation of the solar or wind technology system.
- Add the lesser of:
  - the cost and installation of the solar or wind technology system; or
  - 20 percent of the Property Value to the Base Loan Amount. Must exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.

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- Exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.

The Base Loan Amount may exceed the Nationwide Mortgage Limit for the geographical area (see Maximum Mortgage Amounts) by no more than 20 percent

Refinance

- Compute the Adjusted Value by using the Property Value without the cost and installation of the solar or wind technology system.
- Add the lesser of:
  - the cost and installation of the solar or wind technology system; or
  - 20 percent of the Property Value to the Base Loan Amount. The Mortgagee must exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system
- Exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.

The Base Loan Amount may exceed the Nationwide Mortgage Limit for the geographical area (see Maximum Mortgage Amounts) by no more than 20 percent

Required Documentation

The Mortgagee must document the cost of work, including the energy systems' materials and labor.

Cash Back to the Borrower

The Borrower may not receive cash back from the mortgage transaction. If an excess exists, the funds must be applied to the principal Mortgage balance.

Escrows

The Mortgagee must establish an escrow account in accordance with the Repair Completion Escrow Requirements for the remaining cost of the energy improvements if the installation of solar or wind energy systems is not complete by the time of closing.

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If the energy package is part of a 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy package must be included in the rehabilitation escrow account.

Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.

Form HUD-92300, Mortgagee's Assurance of Completion

When funds to complete the solar or wind energy systems are escrowed, the Mortgagee must execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for the solar or wind improvements has been established.

Completion Requirements for Solar and Wind Technology Installation

Time of Completion

Installations of solar and wind energy systems must be completed within 120 Days of the mortgage Disbursement.

The Mortgagee must apply the remaining solar and wind escrow funds to a prepayment of the mortgage principal if the work is not completed within the required time frames.

Inspection

The Mortgagee or their agent must inspect the solar and wind improvement or obtain evidence from a local authority that the system was installed in accordance with local code.

Escrow Closeout Certification

After the repair or rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

203(k) Loan Program

Refer to Chapter 22 | Construction & Renovation Lending Guide and applicable Product Snapshots for program guidelines.

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HUD REO Purchase

A HUD REO Property, also known as a HUD home or a HUD-owned home, refers to a one- to four-unit residential property acquired by HUD as a result of a foreclosure on an FHA-insured Mortgage or other means of acquisition, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the Mortgagee.

Insured HUD REO Property Purchase Programs

Section 203(b)

- The HUD REO Property meets HUD's Minimum Property Requirements (MPR) in its as-is condition with no repairs, alterations, or inspections required.

Section 203(b) With Repair Escrow

- Credit Committee Approval is required along with the prepared escrow holdback agreement.
- If the HUD REO property does not meet HUD's MPR in its as-is condition, but repairs of no more than $10,000 are completed, the HUD REO property would meet HUD's MPR. An escrow account to complete the repairs necessary to meet MPR after closing is required.
- The Mortgagee may establish a repair escrow for incomplete construction, or for alterations and repairs that cannot be completed prior to loan closing, provided the housing is habitable and safe for occupancy at the time of loan closing. Repair escrow funds must be sufficient to cover the cost of the repairs or improvements. The cost for Borrower labor may not be included in the repair escrow account.
- The maximum escrow amount must be based on the sum of the repairs required to meet the intent of HUD's MPR, plus a 10 percent contingency. The total escrow amount, including the 10 percent contingency, must not exceed $11,000. The cost for repairs may be added to the base loan amount.
- The loan must comply with HUD's Repair Completion Escrow Requirements.

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- Form HUD-92300, Mortgagee's Assurance of Completion, must be executed to indicate that the repair escrow has been established.
- Form HUD-92051, Compliance Inspection Report, is required to certify that the incomplete construction, alterations, and repairs have been satisfactorily completed.

Ordering Case Numbers

Case numbers for Insured HUD REO Property Purchases must be ordered in accordance with FHA's Ordering Case Numbers. Select "Real Estate Owned w/Appraisal" for Processing Type and enter the Case Number of the HUD REO Property in the Prior Case Number field. The HUD REO Property Case Number can be found on the top right-hand corner of form HUD-9548.

Purchase Contract

The first block on Line 4 of the sales contract, as well as the applicable block for the FHA program-203(b), 203(b) repair escrow, must be checked.

Appraisals for HUD Real Estate Owned Properties Purchased With a New FHA-insured Mortgage

A new appraisal must be prepared for all transactions involving the purchase of a HUD REO Property with a new FHA-insured Mortgage. The appraisal must be prepared in accordance with the requirements of HUD Real Estate Owned Properties except as noted.

Property Meets HUD's MPR

If the appraisal reveals that the Property meets HUD's MPR, the Appraiser must complete the appraisal report "as is."

Property Requires Repairs

If the appraisal reveals that the Property requires repairs in order to meet HUD's MPR, the Appraiser must provide an estimate of the cost to cure and complete the report "Subject to the following repairs or alterations on the basis of the hypothetical condition that the repairs or alterations have been completed."

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Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD REO Property.

Required Analysis and Reporting

Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. The Appraiser must describe any differences found between the information contained in the Property Condition Report (PCR) and the Appraiser's observations. The Appraiser must support this description with photographs when warranted.

Utilities - Mechanical Components

If the utilities are off at the time of inspection, the Appraiser must ask to have them turned on and complete all requirements under Utilities-Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

Sales Comparison Approach, Use of Real Estate Owned Sales as Comparable Sales

When considering sales to be utilized as comparables, the Appraiser must note the conditions of the sale and the motivation of the sellers and purchasers.

In some markets, non-arm's length sales constitute the majority of recent transactions of similar properties and thus are significant in the analysis of the subject. This assignment is to estimate Market Value, so REO sales, short sales, and other non-arm's length transactions must not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the Appraiser must provide additional explanation and support in the "Analysis" section of the sales comparison approach.

Transfers to a Mortgagee or Entity that owns the Mortgage by deed of trust through foreclosure sale or sheriff's sale, are not acceptable as comparable sales.

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Appraisers must exercise due diligence and care in the research and validation of REO sales to ensure similarity to the subject, especially in physical condition.

Appraisal Conditions

The Appraiser must provide an analysis and report of the value of the subject Property "as is." The appraisal report must include the applicable property specific appraisal reporting form, all required exhibits, and a copy of the PCR.

For Manufactured Housing, the Appraiser must not require a certification that the foundation complies with the PFGMH.

Extraordinary Conditions

The as-is value can be impacted by extraordinary conditions. If the Property has an illegal use or an extraordinary condition, the Appraiser must estimate the cost to bring the Property into compliance with zoning or typical marketability. The Appraiser must report whether any grandfathered use is allowed. The Appraiser may contact the Asset Management (AM) contractor for guidance and clarification when appraising a HUD home that is impacted by extraordinary circumstances.

Statement of Insurability

The Appraiser must include a Statement of Insurability in the "Comments" section of the appraisal report.

Insurable

The Appraiser must state that the Property is insurable if, at the time of the appraisal, the Property meets MPR and MPS without needing repairs.

Insurable With Repair Escrow

If the Property requires no more than $10,000 in repair, the Appraiser must state that the Property is insurable with repair escrow. Refer to Section 203(b) With Repair Escrow above.

Uninsurable

If the cost of repairs is greater than $10,000, the Appraiser must state that the Property is uninsurable.

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*Additional appraisal requirements can be found in the Appraisal Requirements section of this guide.

Requirements for Reviewing the Contractor and the Rehabilitation Proposal

- Cardinal will review the mortgagor's proposed work plan and cost estimates to ensure the planned work meets all program and repair recommendations as noted on the appraisal report.
- The mortgagor must provide a written cost estimate. All repairs and improvements must meet any and all local codes and ordinances as evidenced by a permit issued by the local authority, if applicable.
- The mortgagor and/or contractor must obtain all required permits prior to closing. The submitted cost estimates must clearly state the type of repair and the cost for completion of the work items.
- Cardinal will review and verify the contractor's credentials and work experience and may require the mortgagor to provide additional cost estimates from other licensed and bonded contractors if necessary.
- Cardinal reserves the right to decline the use of a specific contractor at its sole discretion. The selected contractor must agree in writing to complete the work for the amount of the cost estimate and must agree to complete all work in a professional and satisfactory manner within 45 days of closing.
- A copy of the contractor's cost estimates and executed Homeowner/Contractor agreement must be received by Cardinal prior to closing and must be reviewed for approval by the Credit Committee.

Required Completion Time for Repairs

- The contractor must finish the work in accordance with the written estimate and Homeowner/Contractor agreement within 45 days
- If the work is not completed within 60 days of closing, a principal reduction will be made towards the remaining unpaid balance of the mortgage

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Disbursements to the Contractor or Borrower

- No more than one payment may be disbursed to the contractor. The borrower must obtain all licenses, permits, and HOA approval required prior to any draw release.
- The only disbursement will be made following completion of all work and release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all subcontractors or suppliers who could file a legal claim.
- Before the disbursement is made, the borrower must complete a Letter of Completion statement acknowledging that the work has been completed in a professional and satisfactory manner.
- Prior to the release of the disbursement, a final inspection from the appraiser must be received by Cardinal Financial verifying that the work has been completed in accordance with the approved estimates and appraiser's requirements.
- A title update is required prior to final disbursement confirming all liens have been released.

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record.

Date	Version	Description	Approver	Octane Alignment
1.30.26	V201	Updated Cost of Living (COLA) adjustment to 2.8% for 2026 This update may be applied immediately for all loans in process	Kristen Bellon	-
1.21.26	V200	Added additional guidance and Cardinal Overlay under the Overtime, Bonus & Tip section and the Part-Time Employment section expanding on permissible gaps in employment history when considering whether the income can be viewed as consistently earned or uninterrupted. This update is clarification of current guidance and may be applied as of 1.21.26 to all loans in process	Kristen Bellon	*Pending*

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1.16.26	V199	Added clarification under Non-Traditional Credit > Sufficiency of Credit References to include two additional utility company references. This update is clarification and may be applied as of 1.14.26 to all loans in process	Kristen Bellon	-
1.14.26	V198	Added Age Requirements for Borrower and Non-Applicant Title Holder. This update is clarification of an existing policy and may be applied as of 1.14.26 to all loans in process	Kristen Bellon	-
1.2.26	V197	Amended Revision History section sunsetting Descriptions made prior to 2021	Kristen Bellon	-
12.18.25	V196	Added Earnest Money Deposit > Factory Built Housing with Separate Acquisition of Land section specifying when the transaction involves the purchase of a factory built home and the lot on which the home will sit, and there are two separate contracts, the 1% earnest money deposit threshold should be evaluated against each contract independently. This guidance is clarification from FHA and may be applied immediately	Kristen Bellon	*Pending*
12.1.25	V195	Updated the Social Security Income section and added guidance under the Disability Income section (formerly Long-Term Disability) to align with guidance from FHA There are no changes to existing policy and updates may be applied as of 12.1.25 to loans in process	Kristen Bellon	*Pending*
11.26.25	V194	Added Royalty Payments section providing guidance for the use of income from Royalties This is clarification provided from FHA and may be applied as of 11.26.25 to loans in process	Kristen Bellon	*Pending*
11.20.25	V193	Updated guidance related to Form HUD-92900-B, Important Notice to Homebuyers specifying this form is no longer required for any cases not yet endorsed as of 11.19.25	Kristen Bellon	Complete

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10.23.25	V192	Added clarification in Gaps in Employment section for a gap due to short-term or long-term disability. FHA considers this a period of unemployment for underwriting purposes. This is a clarification only and is effective immediately.	Ellen Clayson	-
10.17.25	V191	Added Mortgage Held in the Name of a Family Trust section to provide additional documentation required in order to determine if property is included in the DTI calculation. This is a clarification only and is effective immediately.	Ellen Clayson	*Pending*
9.16.25	V190	Added clarification regarding short term debt providers and provided examples of programs that do not extend beyond 10 months and do not require additional explanation or documentation. This is a clarification only and is effective immediately.	Ellen Clayson	-
9.2.25	V189	Updated the Allowable Exceptions > Increase in Family Size section permitting borrowers to obtain an additional FHA mortgage with clarifying language related to the existing FHA mortgage. Removed the requirement to validate the existing property has a bedroom count that is lower than the subject property bedroom count. Clarified a full Conventional Appraisal Report is required when documenting the LTV ratio on the current FHA mortgage encumbered property. These updates align with current FHA guidance and may be applied immediately	Kristen Bellon	-
9.2.25	-	Updated Recorded Land Contract section specifying the property acquisition date is the recorded date of the land contract, regardless of individual state rules or regulations	Kristen Bellon	-

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		This update aligns with current FHA guidance and is effective with Case Numbers dated on or after 8.12.25		
8.22.25	V188	Added clarification under Gift of Equity that if the amount of the Gift of Equity exceeds the borrower's MRI, closing costs and other charges necessary to close the loan, the borrower may receive the remaining funds at settlement. This update aligns with current FHA guidance and may be applied immediately	Kristen Bellon	-
7.11.25	V187	Updated the Eligible Transactions > Recorded Land Contract section with the following clarification: The land contract must be recorded on or before the Case Number Assignment date. The property acquisition date is the recorded date of the land contract. This update aligns with current FHA guidance and may be applied immediately	Kristen Bellon	-
7.6.25	V186	Added Servicing Fees and Charges section providing guidance for Allowable and Prohibited Fees and Charges This update aligns with current FHA guidance without any changes to Cardinal policy	Kristen Bellon	-
6.23.25	V185	Added Cardinal Overlay stating when funds from a Certificate of Deposit (CD) are required for the down payment or closing costs, and the Note date precedes the CD's maturity date, proof of liquidation is required to reflect any potential early withdrawal penalties and confirm the net available funds This is a Cardinal Overlay and is effective immediately	Kristen Bellon	Complete
5.14.25	V184	Updated the following income sources to clarify three year continuance should be from the Note date: ● Alimony, Child Support and Maintenance ● Pension ● IRA and 401(k) ● Employment as a Travelling Nurse	Kristen Bellon	Complete

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		• All remaining income types where continuance is required, but a 'from' date is not defined by FHA This is a Cardinal Overlay and is effective immediately		
5.8.25	V183	Added Pre-Foreclosure Sales (Short Sales) section Revised Extenuating Circumstances section to align with guidance from FHA Updates align with existing policy and are effective immediately	Kristen Bellon	*Pending*
4.13.25	V182	Provided clarification in the Overtime, Bonus, or Tip Income section regarding the calculation of the income, along with an example provided by FHA. Updated Secondary Financing section to add guidance for Family Member loans. *Updates are clarifications received from FHA and are effective immediately*	Ellen Clayson	*Pending*
4.2.25	V181	Clarified that a lease payment cannot be excluded from the liabilities regardless of the number of months remaining. This is a clarification and is effective immediately.	Ellen Clayson	-
3.28.25	V180	Updated eligible Borrower Eligibility status aligning guidance with ML 2025-09 which removes eligibility for Non-permanent Resident Aliens. Guidance for non-credit qualifying streamline refinance transactions was also updated to now require borrowers meet Citizenship and Immigration Status or Residency Update is effective with Case Number Assignments on or after 5.25.25	Kristen Bellon	Complete
3.27.25	V179	Provided clarification in the Gift section regarding gift funds wired directly to the title company or settlement agent. • Gift funds wired to title that are less than the gift letter do not require a new gift letter; however, borrower assets must be	Ellen Clayson	Complete

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		decreased to the actual gift amount and AUS re-run • Gift funds wired to title that are more than the gift letter require an updated or additional gift letter and the assets adjusted accordingly. Provided clarification in the Commission Income section regarding the calculation of the income, along with an example provided by FHA. Updates are clarifications received from FHA and are effective immediately	Ellen Clayson	Complete
3.11.25	V178	• Updated Community Property Debt Inclusion Exception for Louisiana. • Added clarification in the Subordinate Financing section for Homeowner Benefit Agreements in order to be re-subordinated. *Update is effective immediately*	Ellen Clayson	Complete
3.5.25	V177	Updated Business Assets section to provide guidance on required documentation, along with an overlay of one month's additional PITIA reserves. Update is effective immediately.	Ellen Clayson	Complete
1.30.25	V176	Added 2024 Mileage Depreciation Rate	Kristen Bellon	-
1.25.25	V175	Clarified Eligible Transactions section for cash out and rate/term refinances if the underlying lien is an FHA HECM Reverse mortgage. This is a clarification and effective immediately.	Ellen Clayson	Completed
1.23.25	V174	Updated guidance for Boarder Income to include: • Expand the types of acceptable income verification documentation for individuals renting space inside the home to include bank statements, canceled checks, and/or deposit slips showing rental payments received; • Guidance that rental income from individuals renting space inside the subject property is	Kristen Bellon	*Pending*

		permitted whether the borrower is currently a renter or the homeowner; • Reduction in the acceptable rental income history from two years to 12 months from individuals renting space inside the borrower's home; • Allows borrowers with a 12-month rental history to qualify using income from renters living in the home, provided the income has been received for at least nine of the most recent 12 months, is currently being received, and is averaged over a 12-month period; and • Rental income from individuals renting space inside the home that is used to qualify borrowers cannot exceed 30 percent of their total monthly effective income Update is effective for Case Numbers assigned on or after 3.14.25, however may be implemented immediately		
11.12.24	V173	Added guidance for large deposits made into an account held with a Non-Applicant specifying that if a large deposit is made into an account jointly held with an individual that is not a borrower on the transaction, the deposit is considered a Gift. This is a clarification from FHA and is effective immediately	Kristen Bellon	-
10.30.24	V172	Expanded Taxes and Abatement section to include additional guidance on eligible tax exemptions and abatements. No changes were made to current policy	Kristen Bellon	*Pending*
10.30.24	-	Added clarification for SSI Cost of Living Adjustment (COlA) that the adjustment may be considered towards qualifying income prior to the effective date of the increase. This update is effective immediately	Kristen Bellon	-
10.10.24	V171	Added additional guidance under the Acceptable Donor section to support the relationship of a close friend. This update is effective immediately	Kristen Bellon	Complete

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9.18.24	V170	Added guidance to the Gift Letter Requirements section to indicate the letter must reflect the institution and account number of the donor from which the funds were (or will be) transferred. This is a Cardinal Overlay and is effective immediately	Kristen Bellon	Complete
7.31.24	V169	Added additional clarification under Federal Debt for IRS Payment Plans for Taxes Due (Not Resulting in a Tax Lien). Update aligns with FHA's current direction and is effective immediately	Kristen Bellon	Complete
7.18.24	V168	Added Pension Income and Income from Individual Retirement Account (IRA) and 401(k) sections providing guidance and documentation requirements for income used from these sources as Effective Income. Updates align with FHA's current guidance and are effective immediately	Kristen Bellon	*Pending*
6.11.24	V167	Updated Property Owned by a LLC section to provide clarification from FHA that ownership of the property by the borrower's LLC (regardless of percentage) may not be counted towards meeting ownership requirements. Update is effective immediately	Kristen Bellon	-
6.11.24	V166	Added Self-Employed Business no Longer Open and Operational section clarifying that when a self-employed business is not disclosed, but is identified on the tax returns, Fraud Report, or other documentation, and that business has closed or has changed ownership, evidence must be provided that the entity is no longer open and operational. This update is effective immediately	Kristen Bellon	Complete
6.6.24	V165	Updated Adjusted Value section for refinance transactions adding the following for Case Number Assignment dates on or after 8.19.24 - Properties acquired by the Borrower within 12 months of Case Number assignment by inheritance, through a Gift from a Family Member, or through a non-monetary transaction, may utilize the calculation of Adjusted Value for properties purchased 12 months or greater	Kristen Bellon	-

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6.4.24	V165	Updated guidance to document large deposits using total Effective Income rather than Adjusted Value of the home. Effective with Case Number Assignments dated on or after 5.20.24	Kristen Bellon	Complete
6.4.24	-	Updated the Documenting the Transfer of Gift Funds section revising documentation requirements for the transfer of funds from the donor to the borrower. Effective with Case Number Assignments dated on or after 5.20.24	Kristen Bellon	Complete
5.28.24	V164	Added properties with a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point wells or artesian wells are ineligible for financing. Effective with Case Number Assignments dated on or after 5.20.24	Kristen Bellon	Complete
5.13.24	V163	Updated Ineligible Properties section to include properties as listed on Cardinal's Overlay Matrix; no changes to existing policy were made	Kristen Bellon	-
5.6.24	V162	Clarified credit inquiries reflecting on a non-borrowing spouse's credit report do not need to be addressed	Kristen Bellon	-
4.16.24	V161	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature *Riptide* color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon	-
3.29.24	V160	Added tax year 2023 mileage reimbursement rate	Kristen Bellon	-
3.25.24	V159	Added Business Credit Report section clarifying for manually underwritten loans, a business credit report must be obtained for all Corporations and 'S' Corporations (not required for Partnerships or Sole Proprietorship). Included detailed guidance on how to analyze the report and provided examples of the report and how to read Risk and Score determinations Update is effective immediately	Kristen Bellon	Complete

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3.21.24	V158	Added eligibility for Adjustable Rate Mortgages (ARM's) 3/1 and 5/1. Updated Net Tangible Benefit section with details related to ARM's. ARM's are eligible for loans locked on or after 3.21.24	Kristen Bellon	-
3.18.24	V157	Provided definition of Departure Residence. This is a clarification and effective immediately	Ellen Clayson	-
3.14.24	V156	Added guidance for Borrower Relocating with the Same Employer. This change is effective immediately	Kristen Bellon	
3.11.24	V155	Added clarification surrounding the use of a second appraisal on a property flip resale occurring between 91 - 180 days after acquisition. This change is a clarification and effective immediately	Ellen Clayson	
2.26.24	V154	Updated the Temporary Employment section with guidance from FHA removing the requirement for a two year history employed in that line of work. Provided clarification on when continuance must be documented: This change is effective as of the date of this update	Kristen Bellon	
2.26.24	V155	Added clarification from FHA that a non-occupant co-borrower may not be a non-permanent resident alien This change is effective as of the date of this update	Kristen Bellon	
2.20.24	V153	Added clarification and definition of an audited profit and loss statement	Ellen Clayson	
2.5.24	V152	Added additional guidance under Business Debt in Borrower's Name outlining the requirements for documenting the business paid the debt, along with guidance for identifying the debt in the cash flow analysis of the business	Kristen Bellon	
1.26.24	V151	Added clarification under Satisfactory Credit that delinquent property taxes, when not escrowed, do not need to be analyzed as part of an acceptable housing payment history	Kristen Bellon	
1.9.24	V150	Added guidance for rental income derived from an Accessory Dwelling Unit (ADU) throughout the Chapter to align with FHA ML 2023-17	Kristen Bellon	
1.9.24	-	Added additional clarity around reserve requirements	Kristen Bellon	

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12.27.23	V149	Updated Non-Subject Property Mortgage Debt not in Borrower's Name section with clarification that the taxes, insurance and HOA dues of a non-subject property where the borrower is on title, but not on the Note, do not to be included in the qualifying ratios	Kristen Bellon	
12.5.23	V148	Added additional guidance for omission of business paid debt under the Business Debt in Borrower's Name section	Kristen Bellon	
11.30.23	V147	Added additional clarification for Trust Income requiring the income continue for three years from the Note Date. Added requirement for evidence of one month's receipt of the income prior to the Note date	Kristen Bellon	
11.17.23	V146	Added guidance for funds from a Private Savings Club	Kristen Bellon	
11.16.23	V145	Revised Borrower With No Credit Scores / Non-Traditional Credit section removing limited unit count and additional reserves and added clarification that all manual underwriting guidelines must be met	Kristen Bellon	
11.10.23	V144	Added additional guidance to Self-Employment Required Documentation; clarified self-employment must be documented and evaluated in accordance with standard guidance in all cases	Kristen Bellon	
11.3.23	V143	Added guidance for fiance/fiancee who may be considered a close family friend when determining gift donor eligibility	Kristen Bellon	
10.17.23	V142	Immaterial change. Updated the title of the document to Chapter 12 Credit | FHA Lending Guide.	-	
9.18.23	V141	Added clarification under Subject Property Mortgage Debt not in Borrower's Name that the loan must meet Payment History Requirements if it is manually underwritten	Kristen Bellon	
9.17.23	V140	Updated guidance in Community Property Debt Handling to clarify that delinquent student loans of a non-borrowing spouse that have not turned into a collection or judgment do not need to be resolved or paid in full.	Ellen Clayson	
9.17.23	-	Updated Expected Income section to clarify definition of Guaranteed	Ellen Clayson	

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9.11.23	V139	Removed guidance related to the Mortgage Credit Reject (MCR) process. The MCR screen in FHAC will no longer be available beginning September 11, 2023	Kristen Bellon	
8.31.23	V138	Updated guidance for Canceling and Reinstating Case Numbers	Kristen Bellon	
8.31.23	-	Clarified language concerning rental income for Properties owned less than two years	Kristen Bellon	
8.31.23	-	Provided additional guidance under Foreign Income	Kristen Bellon	
8.24.23	V137	Defined Relative in the Power of Attorney section	Ellen Clayson	
8.21.23	V136	Updated the Employment History Using Schooling section to provide additional guidance related to acceptable education and training when using as part of a two-year employment history	Kristen Bellon	
8.4.23	V135	Added acceptable documentation to support the borrower's occupancy as a tenant under Maximum LTV Exceptions section	Kristen Bellon	
7.25.23.	V134	Added clarification for subordinate financing under the Maximum LTV/CLTV section	Kristen Bellon	
7.21.23	V133	Added further clarification for Cash-out Refinance Transactions secured on a manufactured home, what documentation is eligible to confirm the home was permanently installed for 12 months prior to the case number assignment	Ellen Clayson	
7.17.23	V132	Added clarification for gaps in employment within the most recent 6 months	Kristen Bellon	
7.10.23	V131	Added Undisclosed Obligation section to define, identify sources where the obligation may be found, and what documentation is required	Ellen Clayson	
7.7.23	V130	Added clarification for Cash-out Refinance Transactions that if the subject is a manufactured home, it must be permanently affixed and the home and site must exist together as a real estate entity in accordance with state law for 12 months prior to the case number assignment	Kristen Bellon	

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6.30.23	V129	Added Multiple Units with Designated Commercial Use section providing direction related to self-sufficiency rental income calculations	Kristen Bellon	
6.26.23	V128	Added Gift of Equity from a Trust or Estate section	Kristen Bellon	
6.20.23	V127	Added Adjusted Value section to define the term for purchase and refinance transactions	Ellen Clayson	
6.7.23	V126	Added guidance for income derived from Notes Receivable	Kristen Bellon	
6.6.23	V125	Added clarification that Per Diem pay is not an eligible income source and may not be used	Kristen Bellon	
6.2.23	V124	Added clarification from FHA relating to funds from a title holder or non-title holder spouse that is not a borrower. A large deposit originating from a spouse that is not a borrower must be input and classified as a Gift and referenced as a Gift in the Automated Underwriting System.	Ellen Clayson	
5.30.23	V123	Added Short-Term Debt Obligations section which provides guidance for buy now/pay later accounts such as Klarna, Affirm and Afterpay	Kristen Bellon	
5.24.23	V122	Updated Housing Obligation/ Mortgage Payment history section to clarify derogatory housing payment history is measured to the Case Number Assignment date	Kristen Bellon	
5.12.23	V121	Clarified documentation requirements under Mortgage Payment History relating to forbearance and modifications	Ellen Clayson	
5.1.23	V120	Created Chapter 12 | Credit | FHA Lending Guide. Removed guidance for Property and Appraisal and included in Chapter 12 | Property and Appraisal Requirements | FHA Lending Guide	Kristen Bellon	
4.18.23	V119	Added clarification for Non-subject Mortgage Debt not in Borrower's Name that the taxes, insurance and applicable HOA dues must be included in our qualifying ratios	Kristen Bellon	
4.5.23	V118	Added Documentation Requirements under Sale of Home section outlining allowable documentation when utilizing estimated proceeds or evidencing the exclusion of a mortgage liability	Kristen Bellon	

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4.5.23	-	Clarified acceptable work history prior to a 6 month gap in employment	Kristen Bellon	
3.24.23	V117	Updated Homeowner's Association Dues section with additional verification method when documenting association dues	Kristen Bellon	
3.24.23	V116	Updated Payment History on Housing Obligations section with clarification that canceled checks or bank statements must accompany a Private Party VOM when there is an Identity of Interest between the borrower and the lender	Kristen Bellon	
3.24.23	V115	Added Positive Rental Payment History section which outlines requirements for when Scorecard will assess a positive rental payment history in its loan analysis	Kristen Bellon	
3.24.23	V114	Added additional guidance under Collateralized Loan section	Kristen Bellon	
3.23.23	V113	Added additional guidance for documenting property taxes on other real estate owned	Kristen Bellon	
3.20.23	V112	Removed requirement that business funds be transferred to the borrower's personal account when using Business Assets in our transaction	Kristen Bellon	
3.15.23	V111	Clarified that rental income generated from the subject Accessory Dwelling Unit is not permitted	Kristen Bellon	
3.14.23	V110	Added clarification for Credit Report Requirements for a non-purchasing spouse without a Social Security Number	Kristen Bellon	
3.9.23	V109	Added tax year 2022 mileage reimbursement rate	Kristen Bellon	
3.9.23	-	Clarified that a Gift of Equity may be used to pay down, or pay off a borrower's Consumer Debt	Kristen Bellon	
3.7.23	V108	Revised calculation for property tax calculations for new construction properties in Texas and New Mexico	Ellen Clayson	

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2.24.23	V107	Added UFMIP and MIP sections	Kristen Bellon	
2.24.23	V106	Updated Real Estate Tax section using new functionality for projected taxes in qualifying, but allows current taxes to be used for closing if the borrower requests	Ellen Clayson	
2.24.23	-	Updated Conflict of Interest section	Kristen Bellon	
2.24.23	-	Updated guidance under Self-Employed for calculating Effective Income when the income has been earned for less than two years	Kristen Bellon	
2.24.23	-	Clarified calculation of effective income for child support	Kristen Bellon	
2.24.23	-	Updated Non Profit Entity Secondary Financing section to align with HB 4000.1	Kristen Bellon	
2.24.23	-	Clarified installation seasoning requirements for manufactured homes when the transaction type is a cash-out refinance	Kristen Bellon	
2.23.23	V104	Added Evaluating Credit History section to include direction for loans underwritten using TOTAL or Manual guidelines	Kristen Bellon	
2.8.23	V103	Updated Community Debt Inclusion Exception > Texas to allow revolving debt to be excluded	Ellen Clayson	
2.7.23	V102	Updated guidance for Gap in Employment to align with new revisions in HUD HB 4000.1	Kristen Bellon	
1.31.23	V101	Updated guidance income received through IHSS	Kristen Bellon	
1.22.23	V100	Added clarification to Disputed Accounts section regarding documentation required if a disputed derogatory account is being paid to zero to avoid being considered in Manual Downgrade requirements	Ellen Clayson	
1.22.23	-	Updated Manual Downgrade section to provide clarification regarding judgments and scoring through DU to avoid a manual downgrade	Ellen Clayson	
1.10.23	V99	Updated Information Obtained via Internet section to align with HUD HB 4000.1	Kristen Bellon	

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1.8.23	V98	Added exception handling for property tax calculations for new construction properties in Texas and New Mexico	Ellen Clayson	
12.19.22	V97	Updated Location of Employer section specifying requirement is applicable to purchase transactions only	Kristen Bellon	
12.19.22	-	Updated guidance for Foster Care Income clarifying continuance and documentation requirements	Kristen Bellon	
12.13.22	V96	Clarified documentation allowed to reflect revolving debt balance that is being paid off to qualify	Ellen Clayson	
11.28.22	V94	Replaced Refinance Seasoning chart with link to Refinance Comparison Matrix	Kristen Bellon	
11.28.22	-	Added examples of acceptable documentation to support the borrower's occupancy as a tenant under the Maximum LTV Exception section	Kristen Bellon	
11.15.22	V93	Removed requirement to provide a lease agreement on any non-subject property	Kristen Bellon	
11.15.22	_	Added additional guidance under the Collateralized Loans Section	Kristen Bellon	
11.14.22	V92	Clarified documentation requirements for receipt of Voluntary Child Support income	Kristen Bellon	
11.8.22	V91	Updated Gift of Equity section to clarify the requirement for two separate Gift Letters	Kristen Bellon	
10.30.22	V88	Added section Properties Owned Free and Clear and provided clarification related to seasoning requirements	Kristen Bellon	
10.10.22	V77	Added guidance within the Non-Profit Entity Secondary Financing section for secondary financing provided by a HUD approved non-profit organization	Kristen Bellon	
10.07.22	V76	Added Temporary Buydown program guidelines	Ellen Clayson	
9.28.22	V75	Added additional clarification for Student Loan repayment options	Kristen Bellon	
9.22.22	V74	Added guidance for a COVID related economic event to the respective income types	Kristen Bellon	
9.19.22	V73	Added additional guidance for employment history under the Traveling Nurses section	Kristen Bellon	
8.24.22	V72	Added additional guidance under Secondary Financing to address when a nonprofit meets the	Kristen Bellon	

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		criteria identified in Section 115 of the IRC		
8.24.22	-	Added additional verification of occupancy method under the Streamline Refinance section	Kristen Bellon	
8.24.22	-	Added HUD's Nondiscrimination Policy language and Appraiser Conduct section	Kristen Bellon	
8.24.22	-	Revised age of children to 12 under Residual Income section	Kristen Bellon	
8.18.22	V71	Added Section 8 Housing Subsidy section	Kristen Bellon	
7.15.22	-	Added Comparable Sale Selection criteria	Kristen Bellon	
7.14.22	V69	Updated guidance for delinquent federally insured student loans	Kristen Bellon	
6.30.22	V68	Added single-wide manufactured home eligibility	Kristen Bellon	
6.27.22	V67	Added clarification to require foreign assets be deposited to a US financial institution prior to closing	Kristen Bellon	
6.14.22	V66	Revised Borrower With No Credit Scores / Non-Traditional Credit section	Kristen Bellon	
6.9.22	V65	Updated allowable square footage on manufactured homes to have a total floor area of not less than 400 square feet	Kristen Bellon	
5.23.22	V64	Clarified that proposed tax amounts on new construction transactions will be derived from the CoreLogic Property Tax Estimate if a Tax Certificate cannot be obtained from the taxing authority.	Ellen Clayson	
5.9.22	V63	Removed the requirement for three monthly payments on a new loan used to satisfy a delinquent federal student loan debt which resulted in a CAIVRS claim	Kristen Bellon	
4.27.22	V62	Added guidance for input of DACA borrower into Octane	Kristen Bellon	
4.15.22	V61	Added additional guidance for Open 30-Day Charge Accounts	Kristen Bellon	
4.11.22	V60	Added guidance for Commission Income when the borrower has recently started with a new employer	Kristen Bellon	

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4.11.22		Added guidance for Expected Income from Commission Earnings	Kristen Bellon	
4.5.22	V59	Clarified manual downgrade requirements for Disputed Derogatory Credit Accounts	Kristen Bellon	
4.5.22	V59	Clarified guidelines for Building on Own Land regarding how the loans are closed in Octane	Ellen Clayson	
3.22.22	V58	Added clarification under Newly Employed Borrowers that guidelines may not apply for Seasonal and Union Member workers	Ellen Clayson	
3.3.22	V57	Added Delinquent Student Loan Resulting in CAIVRS Claim section	Kristen Bellon	
3.3.22	V56	Removed Cardinal overlay that Expected Income is not permitted and clarified that a pay stub does not need to be obtained prior to loan delivery	Kristen Bellon	
3.1.22	V55	Clarified Asset Statement requirements for both Accept and Manually underwritten loans	Kristen Bellon	
2.24.22	V54	Added guidance under the Refinance/Payment History Requirement section for when a borrower is on title to a property, but not on the existing mortgage	Kristen Bellon	
2.14.22	V53	Added tax year 2021 mileage reimbursement rate	Kristen Bellon	
1.26.22	V51	Added guidance for Traveling Nurses	Kristen Bellon	
1.26.22	V50	Added additional clarification under the Net Tangible Benefit section	Kristen Bellon	
1.26.22	V49	Added Solar and Wind section	Kristen Bellon	
1.17.22	V48	Provided clarification that Meals and Entertainment expenses are not required to be deducted from self-employment income calculations	Kristen Bellon	

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1.13.22	V47	Added Living Trust section	Kristen Bellon	
1.11.22	V45	Removed the requirement for a Joint Access letter	Kristen Bellon	
1.11.22	-	Added guidance for Gifts of Land	Kristen Bellon	
1.11.22	-	Updated Streamline Refinance's net tangible benefit guidance to specify the required minimum term reduction	Kristen Bellon	
1.11.22	-	Added Section 8 Homeownership Voucher income as an eligible type of Non-Taxable income	Kristen Bellon	
1.11.22	-	Added section Addressing Temporary Reduction in Income	Kristen Bellon	
1.11.22	-	Added clarification that when a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required	Kristen Bellon	
1.7.22	V44	Added Definition Table for difference between Forbearance and Loan Modification when applying seasoning requirements to certain refinance transactions	Kristen Bellon	
1.3.22	V43	Provided clarification for a borrower's two-year employment history prior to a six-month gap	Kristen Bellon	

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