

FHA Manual Underwrite Quick Reference Guide

4000.1 searchable PDF - <https://www.hud.gov/sites/dfiles/OCHCO/documents/4000.1hsg-102021.pdf>

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DTI Ratios

- 560-579 FICO 31/43 Ratios
- 580 & up FICO 37/47 Ratios with minimum 1 compensating factor
- 580 & up FICO 40/50 Ratios with minimum 2 compensating factors
- 580 & up FICO 40/40 Ratios with No Discretionary Debt

Compensating Factors:

- Verified and Documented Cash Reserves -3 or more months PITIA
- Minimal Increase in Housing Expense – Does not exceed current housing by \$100 or 5% whichever is less
- Significant Additional Income not reflected in Effective/Qualifying Income- Borrower must have received for minimum 1 year and is likely to continue and is sufficient to reduce the ratios to not more than 37/47
- Residual Income – Calculate and meet VA Standards and must include all household members
- No Discretionary Debt- Credit report shows established credit lines open for at least 6 months and document that they have been paid in full for at least past 6 months.

Reserves

- 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.

Reserves Continued

- Minimum Reserves for One- to Two-Unit Properties
 - The Mortgagee must verify, and document Reserves equivalent to one month's PITI after closing for one- to two-unit Properties.

- Minimum Reserves for Three- to Four-Unit Properties
 - The Mortgagee must verify, and document Reserves equivalent to three months' PITI after closing for three- to four-unit Properties

Satisfactory Credit History

The underwriter may consider a Borrower to have an acceptable payment history if 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 underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on Revolving Charge Accounts in the previous 12 months. Major derogatory credit on Revolving Charge 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 underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

Housing Payment History

- A Mortgage that was subject to mortgage payment forbearance must utilize the Mortgage Payment history in accordance with the Forbearance Plan for the time of the forbearance period in determining late housing payments. 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.

- Borrower is living rent free you then must obtain a letter from the person that owns the property where they are living rent free and must document dates borrower has resided there living rent free.
- Must verify minimum previous 12 months housing history
- Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:
 - a copy of the modification or Forbearance Plan; and
 - evidence of the payment amount and date of payments during the forbearance term.

A Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

Judgements

- Must be resolved or paid off prior to closing except where excluded by state law.
- Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, except for obligations excluded by state law.
- 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, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower cannot prepay scheduled payments 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. The Mortgagee must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

Disputed Derogatory Credit Accounts

- Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.
- The following items may be excluded from consideration in the underwriting analysis:
 - disputed medical accounts; and
 - disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the Mortgagee includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.
- If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.
- If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts

Short Sales

- A Borrower is generally not eligible for a new FHA-insured Mortgage if they relinquished a Property through a Short Sale within three years from the date of case number assignment. This three-year period begins on the date of transfer of title by Short Sale.
- Extenuating Circumstance Exception Conditions:
 - 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 reestablished 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.

Bankruptcy

- Chapter 7 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 this time, the Borrower must have:
 - reestablished good credit; or
 - chosen not to incur new credit obligations

- Chapter 13 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 payout period under the bankruptcy has elapsed. During this time, the Borrower must have:
 - The Borrower's payment performance has been satisfactory (payment history documentation required), and all required payments have been made on time.
 - the Borrower has received written permission from bankruptcy court to enter into the mortgage transaction.

- No Matter the bankruptcy type, 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. The Mortgagee must also document that the Borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

Foreclosure and Deed-in Lieu of Foreclosure

- A Borrower is generally not eligible for a new FHA-insured Mortgage if the Borrower had a foreclosure or a DIL of Foreclosure in the three-year period prior to the date of case number assignment. This three-year period begins on the date of the DIL or the date that the Borrower transferred ownership of the Property to the foreclosing Entity/designee.
- The Mortgagee may grant an exception to the three-year requirement if the foreclosure 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 reestablished good credit since the foreclosure.
 - **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 the Mortgage was later foreclosed.
 - The **inability to sell the Property** due to a job transfer or relocation to another area does **not** qualify as an extenuating circumstance.