

FHA 100 – Nontraditional Mortgages FHA Overview

Outline

[I. Background 3](#_Toc383364239)

[A. Historical Overview 3](#_Toc383364240)

[B. The FHA Today 4](#_Toc383364241)

[II. Key FHA Underwriting Guidelines 6](#_Toc383364242)

[A. Underwriting the Borrower 6](#_Toc383364243)

[B. Underwriting the Property 9](#_Toc383364244)

[III. Primary FHA Loan Programs 13](#_Toc383364245)

[A. 203(b) Traditional Fixed-rate Loan Program 13](#_Toc383364246)

[B. 251 Adjustable Rate Mortgage 14](#_Toc383364247)

[C. 234(c) Condominium Loan 17](#_Toc383364248)

[D. 203(n) Cooperatives Program 17](#_Toc383364249)

[IV. Specialty FHA Loan Programs 18](#_Toc383364250)

[A. 203(l) Rural Area Loan 18](#_Toc383364251)

[B. 203(k) Rehabilitation Loan 18](#_Toc383364252)

[C. 22 1(d) Loans for Low and Moderate Income Housing 19](#_Toc383364253)

[D. 255 Home Equity Conversion (Reverse) Mortgage Program 19](#_Toc383364254)

[V. Enhancements to FHA Loan Programs 23](#_Toc383364255)

[A. Good Neighbor Next Door Program 23](#_Toc383364256)

[B. Energy-Efficient Mortgage Program (EEM) 23](#_Toc383364257)

[C. Other Programs 24](#_Toc383364258)

[VI. FHA Systems 25](#_Toc383364259)

[A. FHA Connection 25](#_Toc383364260)

[B. Case Number Assignment 26](#_Toc383364261)

[C. FHA List of Approved Inspectors and Appraisers 27](#_Toc383364262)

[D. ADP Code 27](#_Toc383364263)

[E. Credit Alert Verification Reporting System (CAIVRS) 28](#_Toc383364264)

[F. LDP and GSA List 30](#_Toc383364265)

[G. Case Number Assignment Workflow 31](#_Toc383364266)

# Background

To understand the nature of FHA (Federal Housing Administration) programs, it is critical to know that FHA programs are mortgage **insurance** programs. The FHA is not a lender and does not provide any funds for financing real property. The FHA is more accurately an insurance provider for approved lenders and brokers. This means that mortgage lenders that have been approved by the FHA can borrow money in the market to lend to home buyers and then they can ask the FHA to insure this borrowed money. The protection against loss that this insurance provides to lenders was designed by the Federal Housing Administrations to entice lenders to help low or moderate income homebuyers finance their residential home purchase.

## Historical Overview

Historically – meaning until banking deregulation in the 1980’s – mortgage lending was a much simpler process than it is today. If a person wanted to buy a house and couldn’t pay cash, they went to their local bank or Savings and Loan and applied for a loan. Each lender established their own underwriting standards and made their decision based primarily on the availability of funds. If they had a lot of depositor funds to invest, they accepted loans that were a little riskier, but if they had little money available, standards could be extremely stringent. It was even possible that they wouldn’t make a loan to anyone because they just didn’t have the money to lend.

Prior to the Great Depression of the 1930’s, two market factors had a stranglehold on the American dream of home ownership – the limited availability of money to lend in most markets and the lack of any process whereby lenders could share the risk they take when making loans. There were no national lenders, no investors willing to buy mortgages on a non-existent secondary market, and no one willing to share the risk by insuring a mortgage loan against losses. Underwriting standards were very tight; with few if any lenders making loans with higher than a 50% LTV and DTI’s were typically limited to around 20%. Young families trying to buy their first home found the process difficult at best and often impossible. It is no wonder that home ownership rates were below 40% at that time.[[1]](#footnote-1)

The social upheaval that accompanied the Great Depression prompted Congress to begin the process of addressing these two limitations on the mortgage industry. Starting with the creation of the Federal Housing Administration in 1934 and followed quickly by the creation of Fannie Mae in 1938, legislators began addressing the inconsistent availability of cash to loan and the lack of a system for sharing risk.

The role of the FHA, and the private mortgage insurers that joined the industry later, is to provide a system for sharing risk. This allowed the FHA to promote higher LTV loans and, after a period of time, an increase in allowable DTIs. Fannie Mae, and its newer cousins Ginnie Mae and Freddie Mac, function to provide a mechanism for “securitizing” loans so that they can be sold on the secondary market, allowing lenders to replenish their cash reserves and continue lending. You will learn more about that process in another course. This course deals with the role of the FHA in providing a platform for sharing risk.

## The FHA Today

Since 1965 the FHA has been a part of the Department of Housing and Urban Development (HUD). The mission of the FHA is to promote home ownership by providing a mechanism for homebuyers to receive high LTV loans at competitive rates and terms. Though once limited to low income and first-time homebuyers, FHA programs are now available for almost all homeowners. The FHA, as it has evolved, provides three primary services for the industry. They are:

1. The continuous refinement of standardized underwriting guidelines for both borrowers and properties
2. The development of low-cost mortgage insurance products that allows lenders to offer high LTV and other specialized loans, and
3. The development of localized maximum loan limits and development/construction standards for FHA programs

The role of the FHA in improving the quality of entry level homes in the U.S. cannot be overstated. The underwriting guidelines for properties established by the FHA forced builders to dramatically improve the quality of construction in low cost housing. FHA guidelines regarding termite control, rain water management, fire safety and energy conservation served as models for the entire industry. The condominium industry in particular was drastically changed by the introduction of FHA standards.

The FHA’s role in developing standardized guidelines for borrowers has also been critical to the growth of the industry. By developing and applying national standards, the FHA played a major role in combating discrimination and in eliminating much of the guess work that went into deciding who is qualified and who is not. As a result of these efforts, home ownership was at an all-time high in the U.S. prior to the sub-prime lending crisis of 2008.

The FHA mortgage insurance product reduces a lender’s risk by compensating the lender when a lender suffers losses on an FHA insured loan. The FHA covers these losses just as any other insurance provider would, by pooling premiums paid by consumers for mortgage insurance. The FHA Mortgage Insurance Premium (MIP) is the fee paid by homebuyers to secure the amount of insurance required by the lender to cover their loss. For most programs, there is an upfront MIP and an annual MIP, which is paid monthly.

The third service provided by the FHA is the development and continuous refinement of localized loan limits and development/construction standards for FHA products. The FHA closely monitors home prices throughout the country. It uses that data to determine, within congressionally authorized limits, what loan limits should be for those buyers seeking entry-level or step-up homes. These limits can be reviewed on the FHA website at: https://entp.hud.gov/idapp/html/hicostlook.cfm

The FHA is authorized by the National Housing Act to offer certain insurance programs and each program is referred to by its particular section in the act. For example, a loan for a regular 1-4 unit family home is under section 203(b) of the National Housing Act. Loans for condominiums and cooperatives are under section 234(c) and 203(n) of the National Housing Act.

In addition to lowering down payment requirements, an FHA loan also provides reduced monthly payments that result from lower interest rates available through FHA insured programs. For some homeowners, the combined mortgage interest and premium for FHA mortgage insurance is still lower than the mortgage interest paid to private lenders without FHA insurance.

If it were not for the FHA insurance programs, a great many people today could not afford nor could they get financing for a home of their own. Private lenders would normally charge a much higher interest rate without a government guarantee, which in turn would mean that the homeowner would have to pay a high mortgage interest rate. The success enjoyed by FHA led many private companies to develop their own programs.

Many lenders also adopted the standards FHA developed for their own lending. Following the bank deregulation of the 1980’s, the sub-prime industry developed as private companies tried to compete with, and outdo, FHA in attracting low-income and higher risk borrowers. Since the mortgage credit crisis, many of these private lenders and mortgage insurers have gone bankrupt or have stopped lending. In the wake of all the economic challenges, FHA has once again become a dominant force in mortgage lending.

# **Key FHA Underwriting Guidelines**

Even though the FHA is not a lender, they still maintain underwriting guidelines that must be met before they will insure a loan. The underwriting may be performed by the local office of the FHA or, for most lenders, by an underwriter that holds a “Direct Endorsement” certification from the FHA and is employed by the lender. The underwriting process includes standards for both the borrower and the property. Most lenders add criteria based on the needs of their investor pool. It is possible for a loan file to meet FHA guidelines but not meet investor guidelines.

This section will look at basic FHA guidelines; however, you will need to learn the guidelines of your specific investors before you begin selling FHA loans. Remember also that the guidelines are modified regularly to match market conditions. For additional information, refer to the FHA Single Family Handbook, Section 4155.1.

## Underwriting the Borrower

As we review the underwriting guidelines for borrowers, you will notice that FHA guidelines are more lenient that conforming lenders in some areas and more stringent in others. In general, however, a marginal borrower is more likely to qualify under FHA guidelines than under conforming guidelines. Here are the basics:

1. All applicants must have a valid Social Security number. Employees of the World Bank and any foreign embassy are exempt from this requirement.
2. Age Limits: There is no minimum or maximum age limit. However, a borrower must have contractual capacity. In most states, that means that all borrowers must be at least 18 years old or be an emancipated minor.
3. Reasons for Mandatory Rejection:[[2]](#footnote-2)

* Presently delinquent on any Federal debt
* Previously entered on the HUD Limited Denial of Participation (LDP) list, or the GSA “List of Parties Excluded from Participation in Federal Procurement or Non-procurement Programs”

1. Waiting Periods for Borrowers With Past Delinquencies, Defaults, Foreclosures and Bankruptcies:
   * 3 year waiting period following a default or a delinquency resulting in a payment from FHA to the lender.
     + The waiting period begins on the date the FHA paid the initial claim.
     + This waiting period does not apply to delinquencies or defaults on mortgage loans that were not insured by the FHA.
   * 3 year waiting period following a foreclosure or deed-in-lieu
   * 3 year waiting period following a pre-foreclosure short sale
   * 2 year waiting period following a Chapter 7 bankruptcy
   * 1 year waiting period following a Chapter 13 bankruptcy
2. Credit Score:

* ≥580 = eligible for maximum financing Will require manual underwriting.
* 500 to 579 = limited to 90% LTV Will require manual underwriting.
* <500 = not eligible for FHA financing
* A Nontraditional Merged Credit Report may be used with borrowers who do not have a credit score
* Case numbers assigned on or after April 1, 2013 the following will apply:

≤\_620 and DTI above 43% = require manual underwriting[[3]](#footnote-3)

1. Occupying and Non-occupying Co-borrowers:

* All borrowers must sign all security instruments
* All borrowers are obligated on the mortgage note, and
* All borrowers must be on title

1. Cosigners:

* Are not on title
* Are obligated on the mortgage note
* Must complete and sign all loan documents except the security instrument
* May not have a financial interest in the transaction (seller, builder, etc.) unless they are related by blood, marriage, or law
* Must maintain a principal residence in the United states unless they are active duty military or a U.S. citizen living abroad
* Must otherwise be eligible for financing

1. Military personnel are considered occupying owners and are eligible for maximum financing if a member of the immediate family will occupy the subject property as their principal residence, whether or not the military person is stationed elsewhere.
2. Non-borrowing Spouse or Other Party of Interest:
   * If two or more parties have or will have an ownership interest in the property, but only one of the parties is applying for the loan (and credit qualifies for the loan on his/her own), FHA does not require that the non-applicant(s) execute the note or security instrument.
   * However, the lender must still ensure a valid and enforceable first lien on the property under applicable state law, which may require the execution of the security instrument (but typically not the note) by all parties who have an ownership interest in the property.
   * If the party in question executes the security instrument only and not the note, he/she is not considered a borrower for FHA purposes and need not sign the loan application or be considered in credit underwriting.
3. Debt to Income Ratios
   * Maximum ratios are 31% (housing expense ratio) and 43% (total debt to income)
   * As of April 1, 2013 any loan with a credit score at or below 620 and a DTI above 43% will be downgraded to require manual underwriting.[[4]](#footnote-4)
   * Ratios may be exceeded with significant compensating factors
   * Must include all recurring obligations lasting 10 months or more from the anticipated date of closing
   * If little or no reserves following closing, include all recurring obligations regardless of their duration
   * If no minimum monthly payment on credit report, use 5% or $10, whichever is greater
   * Alimony and child support payments are treated as a reduction in gross income, not as a recurring obligation
   * Projected obligations, such as student loan payments, must be included if they are expected to begin within 12 months
4. Income Stability
   * Favor income stability over employment stability
   * Income must be expected to continue for at least 3 years
   * Overtime and bonus income may only be used if able to document that it is likely to continue
5. Sources of Cash to Close
   * Cash saved at home is acceptable if the borrower can document the capacity to save and provide a reasonable written explanation
   * The sale of personal property is acceptable
   * Gifts are acceptable
     + The lender must document that there is no expectation to repay
     + The source of the gift may be from multiple sources in addition to family members, including non-profit and government organizations
   * Sellers or interested third parties may contribute up to 6% of the sales price toward closing costs
   * Equity credits are acceptable only when from a family member
   * Sweat equity is acceptable and may be gifted
6. Maximum Loan-to-Value
   * For purchases, the maximum LTV is 96.5%, calculated on the lesser of the sales price or the appraised value.
   * For rate-and-term refinances, the maximum LTV is 97.75%.
   * For cash-out refinances, the maximum LTV is 75%.
   * If there is a non-occupying borrower, the maximum LTV is 75% unless that borrower is a relative of the occupying borrower
   * The FHA has proposed new rules regarding down payment and loan amounts. The proposed rules say: “*The maximum LTV will be limited to 95 percent for loans in excess of $625,500 LTV limits do not include the addition of the Up-Front Mortgage Insurance Premium (UFMIP). Certain FHA-insured loans will be exempted from this notice. Loans made pursuant to the FHA Streamline Refinance without an appraisal program, which has no LTV calculation, and the 203(k) Rehabilitation Mortgage Insurance Program, which utilizes two different LTV calculations in addition to the cost of improvements, are exempted*.”[[5]](#footnote-5)

HUD publishes all of the requirements and guidelines for all FHA loans in a handbook. The handbook for credit analysis is called Mortgage Credit Analysis for Mortgage Insurance on One- to Four-Unit Mortgage Loans (4155.1) and can be found online here <http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4155.1>. Be sure to know and understand the requirements for FHA loans so you can properly explain them to your borrower and help them make the best decision they can regarding their financing.

## Underwriting the Property

As mentioned previously, FHA property guidelines have driven major improvements in the quality of entry-level homes built nationwide. Many of the standards first initiated by the FHA have since been incorporated into local building codes. Because of these improvements in building codes, many of the standards FHA pioneered have been removed from the current underwriting standards. However, significant requirements still exist. We will highlight the most important of these in this section.

1. Unacceptable Locations
   * Properties with excessive hazards, noxious odors, offensive sights or excessive noises to the point of endangering the physical improvements or seriously affecting the livability of the property may be disqualified.
   * Special hazards caused by denuded slopes, soil erosion and land slippages may disqualify a property.
   * No operating oil or gas well may be within 75 feet of the structure. Additionally, the structure may not be constructed on a slush pit and the lender must receive certification from a state agency that a non-operating well was safely and properly abandoned.
   * No dwelling may be located within ten feet of the outer boundary of a high voltage transmission line easement. The dwelling also may not be any closer than the fall distance of a structural tower supporting the lines.
   * Proposed properties near an airport must be rejected if they lie in an area in which the noise factor exceeds 75 decibels or if located within Runway Clear Zones at civil airports or Clear Zones or Accident Potential Zone I at military airfields. Existing properties over one year old have some exceptions to this rule.
   * No part of any residential structure may be located less than ten feet from the outer boundary of a pipeline easement for high pressure gas and liquid petroleum transmission lines.
2. Neighborhood Considerations
   * In communities economically dependent on a single industry, underwriters must carefully evaluate the long-term economic prospects of the industry
   * In small communities, special consideration must be given to small community market preferences, rate of marketability, mobility of people and stagnant or declining growth.
   * Outlying properties large enough to allow for the raising of horses or for limited farming are acceptable so long as the income from those activities is not a significant portion of the applicant’s income.
3. Conditions Requiring Repair
   * Limited to items affecting the safety and security of the property and to items which reduce the soundness of the property. Cosmetic repairs are not required.
     + Typical conditions include termite damage; damaged, inoperative or inadequate plumbing, heating or electrical systems; broken or missing fixtures, rotten or worn out counter tops; any structural failure in framing members; leaking or worn out roofs; defective paint surfaces; masonry and foundation damage; drainage problems; wood floors worn through the finish; and broken plaster or sheetrock.
   * Deferred maintenance items, including any system which will reach the end of its useful life within two years
   * Issues affecting health and safety, such as stair rails and mold
   * Lead-based paint in properties built before 1978 must be abated
4. Property Flipping
   * Properties being resold within 90 days of a previous sale are not eligible for FHA financing.
   * Properties being sold between 91 and 180 days of a previous sale require a second appraisal if the new purchase price is 100% or more above the original purchase price.
   * Properties sold between 91 and 365 days of a previous sale may require additional documentation if the resale price is greater than the original purchase price by 5% or more.
   * These restrictions do not apply to properties purchased by employers or a relocation firm as part of an employee relocation.
5. Manufactured Housing

* Manufactured housing is acceptable when it has been converted to real property by securing the home to a foundation on property owned by the borrower.
* An engineer’s certificate must be received showing that the foundation and attachments meet FHA guidelines.
* The space between the manufactured home and the foundation must be enclosed by a properly constructed and ventilated continuous wall.
* Since the steel chassis under a manufactured home is not an effective termite barrier, termite treatment is required.
* Have at least 400 square feet as the minimum floor area
* Be built to the Federal Manufactured Home Construction and Safety Standards (MHCSS), as evidenced by an affixed certification label, if built after June 15, 1976

1. Condominiums
   * Condominium complexes must have FHA approval in order to be eligible for FHA financing. Either by HUD review and approval process (HRAP) or direct endorsement lender review and approval process (DELRAP).
   * For HRAP Project approval applications, annexations and recertification submissions are

reviewed and processed by FHA staff.

* + For DELRAP Project approval applications, annexations and recertification submissions are reviewed and processed by qualified Direct Endorsement (DE) mortgagee staff
  + Existing (projects fully completed and over one year old or non-gut rehab conversions) require that at least 50 percent of the units of a project must be owner-occupied or sold to owners who intend to occupy the units.
  + Proposed, Under Construction projects (including existing < 12 months old) or Gut Rehab Conversions will allow a minimum owner-occupancy percentage equal to 30 percent of the declared units.
  + Unoccupied and unsold units owned by a builder/developer are not considered as investor owned and subject to the requirements unless the unit is currently rented or has previously been occupied.
  + No more than 15 percent of the total units can be in arrears (more than 60 days past

due) on their condominium association fee payments (does not include late fees or other administrative expenses). The 15 percent includes all units (occupied, investor, bank owned and vacant).

* + Mortgagee Letter: 2012-18 says “This approval process will apply until August 31, 2014, unless further extended by FHA.[[6]](#footnote-6)

HUD publishes all of the requirements and guidelines for all FHA loans in a handbook. The Lenders Guide Handbook for the total analysis of FHA lending is called Lender's Guide to the Single Family Mortgage Insurance Process (4155.2) and can be found online here [http://portal.hud.gov/hudportal/HUD?src=/program\_offices/administration/hudclips/handbooks/hsgh/4155.](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4155.1)2. Be sure to know and understand the requirements for FHA loans so you can properly explain them to your borrower and help them make the best decision they can regarding their financing.

# **Primary FHA Loan Programs**

In this session we are going to discuss the primary programs that are insured through the FHA. These programs are defined in the CFR or the Code of Federal Regulations. This is the document that contains the regulations that implement each FHA program. The programs have their own names and their own identification numbers based on the corresponding CFR section, so they're easily identifiable.

When qualifying a person for an FHA loan, you will have to make sure that you are using the correct program. Studying and learning the requirements to qualify for each program can optimize your ability to determine which loan will best meet the needs of your client. Except as otherwise stated, FHA’s single family programs are limited to **one to four unit properties** that are **owner-occupied principal residences** only.

FHA’s programs differ from one another primarily in terms of what types of properties are eligible and the types of financing available for each. For example, if your client wants to buy a condo, then you need to use the 234(c) Program. If your client wants to buy a co-op, then they need to use a 203(n) Program. If your client wants to buy a house in a rural area, then you use 203(i). If your client wants to rehabilitate a home, then you can use 203(k) if the home improvement fits certain criteria. But, for most homes and the majority of borrowers, you will use the 203(b) program for a regular purchase loan or refinance.

You can visit this site at FHA to see more details about each program.

<http://www.hud.gov/offices/hsg/sfh/insured.cfm>.

## 203(b) Traditional Fixed-rate Loan Program

The oldest and most popular program is called the 203(b). These are fixed-rate loans that typically amortize for 30 years; however, a 15-year term is also available. The 203(b) is used primarily in metropolitan areas.  In general, unless the homeowner qualifies under “hardship” conditions, each consumer can only have one 203(b) FHA insured loan at a time.

The 203(b) loan can be used to either **purchase** or **refinance** a 1-4 unit residential property. A property can be an existing home or it can be one under construction. Eligible properties include detached or semi-detached dwellings, row houses, multiplex dwellings, and, individual condominium units. If a property is not detached there are additional property requirements. It can also be used for a manufactured home that has been converted to real property by placing it on a foundation along with other requirements as we talked about in the earlier chapter.

To qualify for a 203(b) loan, the borrower must meet standard FHA credit qualifications. A related program for Qualified Veterans under 203(b) allows the veterans to put down $750 less as a down payment than a typical FHA mortgage.

### Refinances

A refinance transaction is used to pay off an existing real estate debt with the proceeds of a new mortgage. They can also be used to remove a cosigner or co-borrower who no longer wishes to be obligated on the mortgage. There are three types of refinance loans and these are the same types allowed for most FHA programs, with some small differences.

The three refinance types are:

1. **Rate and Term (no cash-out) Refinances** are loans in which all proceeds are used to pay existing liens and costs associated with the transaction. Borrowers cannot receive more than $500 in cash at closing. This kind of refinance is typically driven by a drop in interest rates or when an ARM loan is beginning to adjust. Rate and term refinances tend to have lower rates than a cash-out refinance.
2. **Cash-out Refinances** occur when new money is advanced on the loan. They are usually driven by an increase in home values which allow homeowners to pull some cash from their properties to pay bills or make purchases. A cash-out refinance is a higher risk loan and typically requires a higher interest rate, lower LTV, and/or stricter underwriting standards than a rate and term refinance. Serial cash-out refinances, where borrowers pull equity from their homes every few years, are particularly risky.
3. **Streamline Refinances** can be made with or without an appraisal. It is a refinance from an existing FHA loan to another FHA loan, mainly to take advantage of lower interest rates. Borrowers cannot receive more than $500 in cash back. Since the borrower and property are already FHA approved, there is usually less work involved in processing this type of refinance.

The maximum term of any refinance with an appraisal is 30 years. The maximum term of a streamline refinance without an appraisal is limited to the lesser of 30 years or the remaining mortgage term plus 12 years.

## 251 Adjustable Rate Mortgage

The next program is the 251, *Adjustable Rate Mortgage* (*ARM)*.  The ARM, by definition, is a loan with an interest rate that adjusts according to a set formula and at set intervals.  Section 203(b), 203(h), 203(k) or 234(c) loans can be financed with an ARM. The number of ARMs that FHA may insure in a year is limited to 30 percent of the total number of mortgages insured during the preceding fiscal year. When the 30% limit is close to being reached, FHA will notify lenders.

1. **Basic Features**

All ARM loans have a start rate, a set schedule for when the rate will adjust and a formula used for determining what the new interest rate will be. That formula is always:

Index + Margin = New Interest Rate

The borrower is protected by both periodic and life caps, which are based on the start rate. Let’s talk about what each of these terms mean.

1. **Start Rate**: This is the initial interest rate that the borrower pays on the mortgage. Depending upon the program, it might last 1, 3, 5, 7 or 10 years. Start rates may be based on the current margin plus index, or may be a “teaser” rate that is lower than the current market rates.
2. **Index**:  An adjustable rate mortgage must be tied to some type of index, a third-party rate independent of the program or the lender that is used as a benchmark.  Loans under the FHA 251 program may be indexed to either the one year LIBOR (London Interbank Offered Rate) or the CMT (Constant Maturity Treasury Index).  Both rates are available to the public and can be followed by the borrower, eliminating the risk of surprise. Indexes change daily, but the loan terms specify when, prior to the change date, the index will be measured. Indexes don’t just go up. It is possible for ARM rates to go down when significant drops in their index rate occur.
3. **Margin**: The margin is the predetermined amount (spread) that is added to the index to determine the new interest rate. The margin is set by the market. It must be disclosed at application and set forth in the loan documents. The margin does not change over the life of the loan.
4. **Adjustment Period**: The adjustment period determines the frequency of interest rate adjustments. In the marketplace you can find ARMs that adjust monthly, semi-annually (every 6 months), annually and biennially (every 2 years). ARM loans insured by the FHA must have annual adjustment periods. However, the first adjustment can occur on any of a number of schedules. Current allowable first adjustment periods under FHA programs include:

ARM Type Required Time Frame for First Adjustment

1-year ARM No sooner than 12 months nor later than 18 months

3-year ARM No sooner than 36 months nor later than 42 months

5-year ARM No sooner than 60 months nor later than 66 months

7-year ARM No sooner than 84 months nor later than 90 months

10-year ARM No sooner than 120 months nor later than 126 months

***Note***: The date of the first adjustment to the interest rate and the frequency of adjustments must be specified in the mortgage documents.

1. **Rate Caps:** These are limits on the amount that the interest rate can change. They are also built into the terms of the mortgage.  Rate caps can apply to periodic increases, or to the life of the loan. A periodic rate cap limits the amount the rate can change at each scheduled adjustment. A lifetime cap creates a maximum interest rate that can never be exceeded, regardless of how high the index rises.

For the 1, 3 and 5 year ARMs, the periodic rate cap is 1% and the lifetime rate cap is 5%.  For the 7 and 10 year ARMs, the periodic rate cap is 2% and the lifetime cap is 6%.  The following example demonstrates how these caps affect rate changes.

Loan Terms

* 3-year ARM start rate: 4.2%
* Index – LIBOR rate: 2.4%
* Margin: 2.7%
* Maximum rate at 1st Adjustment: 5.2% (4.2 + 1 = 5.2)
* Lifetime Maximum Rate: 9.2% (4.2 + 5 = 9.2)
* Rate at 1st Adjustment: 5.1% (2.4 + 2.7 = 5.1, which is < 5.2%)

6) **Qualifying Rate:** For an adjustable rate mortgage the qualifying rate determines the payment that is used to qualify the borrower. For a 1 year ARM, you should use 1% above the start rate if the LTV is above 95%. For 3-10 year ARMs, the qualifying rate is the same as the start rate.

1. **Streamline Refinance**

Streamline refinances must benefit the borrower. A borrower’s loan can be modified in the streamline process either from a fixed rate mortgage (FRM) to an ARM or from an ARM to a FRM. The following restrictions apply:

* If the borrower goes from an FRM to an ARM, the adjustable rate must be at least 2% below the fixed rate.
* If the borrower refinances an ARM to an FRM, the new fixed rate cannot be more than 2% greater than the current adjustable rate.
* Refinancing an ARM to an ARM requires that a new ARM rate be lower than the current ARM rate.

It is possible for a borrower’s payment to be reduced in a streamline refinance even when the interest rate does not go down. This occurs when the new term is significantly greater than the remaining term on the existing mortgage.

## 234(c) Condominium Loan

The 234(c), program is for loans secured by condominium properties.  A condominium is defined as a multi-unit project that:

* Has individually-owned units that may be either attached in one or more structures, or detached from each other
* Is essentially residential in use (for FHA purposes)

A condominium regime is created by state or local law and is characterized by fee simple ownership of a unit (defined in the condominium documents), together with common areas such as hallways, heating systems, elevators and exterior areas. The property interest in these areas is both common and undivided on the part of all unit owners, each of whom belongs to an ownership association that typically maintains the property and collects assessments or dues from each unit owner.

Maximum loan limits are available for the **purchase** or **refinance** of a condominium unit.  In order to finance or refinance a condominium unit, the condominium project must be on the approved list of FHA condominiums Approvals are done either by HUD review and approval process (HRAP) or direct endorsement lender review and approval process (DELRAP). A list of approved condo projects is found here: <https://entp.hud.gov/idapp/html/condlook.cfm>, where you enter the location information of the condominium complex for the unit you are financing.

## 203(n) Cooperatives Program

A Cooperative (Coop) is a form of ownership in which buyers acquire corporate certificates (stock or membership) and occupancy certificates in a cooperative housing project covered by a blanket mortgage insured under the National Housing Act, where a lien can be taken on more than one property. The 203(n) program allows buyers to use FHA financing on approved cooperative properties. The loans are only available for an owner who intends to occupy the unit and who is responsible for sharing common expenses. Like condominiums, the terms of a coop agreement must meet FHA standards.

# **Specialty FHA Loan Programs**

The majority of FHA loans insured each year come from the programs discussed in section III. However, there are several specialty programs that allow borrowers with unique needs and circumstances to receive FHA insured financing.

## 203(l) Rural Area Loan

Since there are many homes located outside metropolitan areas, FHA has an insurance program known as **203(I)**, the ***Rural Area Loan***.  This kind of mortgage applies to any single-family dwelling in a rural area or a farm home located on 2.5 or more acres of land adjacent to an all-weather public road. This mortgage insurance applies to purchasing a proposed, under construction, or existing one-family dwelling (or manufactured home). It can also be used to refinance an existing mortgage. If a property has 2.5 acres or less, it normally will fall under the 203(b) program.  The 203(l) program permits fewer construction standards and allows for the land to account for a higher percentage of the property value than normally seen in suburban properties.

## 203(k) Rehabilitation Loan

The **203(k)**, also known as the ***Rehabilitation Loan***, is used to finance the rehabilitation or improvement of an existing owner-occupied 1-4 unit dwelling.  The dwelling has to be at least a year old and generally must fall within one of the following three categories:

* + - 1. In most cases the loan is used to purchase an existing dwelling and the land upon which it stands and to finance the rehabilitation of the property.  The work done on the property must add sufficient value to the property to cover the cost of the improvements.
      2. A 203(k) loan may also be used to purchase a dwelling that is located somewhere else and move it to a new lot and new foundation.
      3. Finally, a 203(k) loan may be used to refinance an existing home to pay off debts and rehabilitate it at the same time.

Both purchase loans and refinance transactions are permissible; however, there are two specific restrictions under 203(k):

1. For a purchase loan, the costs of the rehabilitation or improvement must total a minimum of $5000.
2. For FHA's Streamline 203(k) loans, homebuyers can finance up to an additional $35,000 into their mortgage to improve or upgrade their home.

**Eligible Improvements include:**

* Structural alterations and reconstruction
* Modernization and improvements to the home's function
* Elimination of health and safety hazards
* Changes that improve appearance and eliminate obsolescence
* Reconditioning or replacing plumbing; installing a well and/or septic system
* Adding or replacing roofing, gutters, and downspouts
* Adding or replacing floors and/or floor treatments
* Major landscape work and site improvements
* Enhancing accessibility for a disabled person
* Making energy conservation improvements
* HUD requires that properties financed under this program meet certain basic energy efficiency and structural standards.

All health, safety, and energy efficient items must be addressed prior to completing general home improvements. Items marked with an asterisk are not permitted for streamline refinancing.[[7]](#footnote-7)

## 22 1(d) Loans for Low and Moderate Income Housing

The **221(d)** program applies to low cost housing for low or moderate income families.  These are households with income not exceeding 115% of the median income for the area. The 221(d) program is most often used by non-profit organizations when they purchase properties to rent to lower income families. Nonprofit organizations may only obtain FHA-insured *fixed rate* mortgages. Only an existing FHA-insured mortgage is eligible for refinancing into this type of FHA loan and may never result in equity withdrawal (no cash-out).

## **255 Home Equity Conversion (Reverse) Mortgage Program**

The Section 255 Home Equity Conversion Mortgage (HECM) program, often called a reverse mortgage, is designed to enable elderly homeowners to convert the equity in their homes to monthly streams of income and/or lines of credit. Unlike a traditional "forward" residential mortgage, which is repaid in periodic payments, a reverse mortgage is repaid in one payment, after the death of the borrower, or when the borrower no longer occupies the property as a principal residence.

There are many aspects of an FHA reverse mortgage some of which we will review below. To learn more, review The FHA Single Family Handbook 4235.1 Chapters 1 through 9 and Appendices 1 through 23..

### Basic Features of a HECM Loan

With a HECM loan, the FHA insures lenders against potential losses on reverse mortgages, which convert equity into cash payments or lines of credit. The term “reverse” refers to the lender sending regular payments to the borrower, rather than the borrower paying the lender. The loan negatively amortizes, in that all disbursements and interest charges are added to the balance. The borrower never makes a mortgage payment. Other features of the 255 HECM loan are:

* The mortgage plan can be term (monthly disbursements for a fixed period), line of credit (no fixed period), tenure (monthly disbursements for life), or a combination of a line of credit with either a term or tenure payment plan.
* Interest rates may be fixed or adjustable. Rate caps on an ARM are 2% and 5%.
* The maximum loan amount available to the borrower varies according to the amount of equity in the property, the age of the youngest borrower, the plan chosen, and the interest rate. The maximum loan may not exceed the single-family limit for the county where the property stands.
* The program is only available for an owner occupied primary residence. The residence can be a traditional single-family home, a manufactured home, or a condominium. The HECM loan is not available for coops or 2-4 unit properties, regardless of occupancy.
* All persons holding title to the property must be at least 62 years old. If title is held by a revocable trust, all primary beneficiaries must be at least 62 years old. Properties held by an irrevocable trust are not eligible for the program.
* The balance of the loan should never exceed the value of the property. Therefore, the HECM program works best for homes that are free of existing mortgages. It is possible to refinance an existing mortgage into a HECM, but the LTV must be very low. How low depends upon the age of the youngest borrower and the plan chosen.
* Borrower(s) do not income qualify for a HECM loan. However, their credit history is examined to ensure that there are no tax or other liens that could endanger the position of the lender. Also, borrowers may not be delinquent or in default on any federal debt that cannot be satisfied at closing.

All borrowers seeking a HECM loan must receive counseling from an approved counseling agency. The borrowers cannot be charged any fees and the loan cannot be closed until they have completed the counseling and provided a certificate of completion to the lender.

The most common reason why homeowners are unable to qualify for a reverse mortgage is that they do not have enough equity in their home. Often, they will have used traditional loans to borrow against their equity and pay unexpected bills when they could have qualified for a reverse mortgage if they had done so before pulling out their equity.

As mentioned before, there is a lot of misinformation floating around about HECM loans and borrowers are often very hesitant. However, this is a good program for many people and can be a very profitable product for an originator. Competing programs do exist, but most are more limited and/or more costly than the FHA program. In addition, a HECM loan can be used as a purchase loan for those who are downsizing. It is a very versatile loan program.

### Common Questions Regarding a HECM Loan

The following questions are frequently asked of mortgage originators regarding reverse mortgages. Be prepared by knowing the program guidelines. You can find the HUD frequently asked questions and answers here: <http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/rmtopten>.

*Q1: I’ve heard that the government can kick you out of your home if you get a reverse mortgage. Is that true?*

A: No, absolutely not. The FHA reverse mortgage program was designed by Congress to allow mature homeowners to stay in their homes by providing a reliable source of cash to help pay for medical expenses and in-home care. You never make a monthly payment and, as long as you live in the home, you do not have to repay the debt. The home remains in your name. You own it, just like you do now. That doesn’t change.

*Q2: What happens when I die, or have to go to a nursing home? Will my spouse or children get to keep the house?*

A: Yes, of course they will. It is your home, and what happens to it when you are gone is your choice. As long as any borrower is still living in the home, the loan goes on as always. Once all borrowers have either died or left the home, the disbursements stop and the estate is given one year to repay the loan. They can do that by either selling the home or refinancing the loan.

*Q3: What happens if property values go down and my estate isn’t able to sell the house for enough to cover the mortgage?*

A: If your estate sells the house for at least 95% of fair market value, as established by an FHA appraisal, the lender must accept the lesser of the proceeds of the sale or the actual amount owed as full payment. If there is a shortfall, the lender will be paid by the FHA. That’s what the mortgage insurance is for.

*Q4: Do we have to be retired to get a reverse mortgage?*

A: No. You just have to be 62 or over and own your home. The FHA does not look at your income source. Many people who are still working use a reverse mortgage as a financial tool to help them pay bills or prepare for retirement.

*Q5: I am over 62, but my spouse isn’t. Can we still get a reverse mortgage?*

A: Everyone who holds title to the property must be 62 or older. If the property is held in a revocable trust, all primary beneficiaries must be 62 or older. If you choose to remove your spouse from the title, you can still leave the home to him or her in your will, but they will have to repay the loan within one year of either your death or when you started living somewhere else. Of course, if they are 62 by then, they might be able to refinance into a reverse mortgage of their own, depending upon how much equity is left.

*Q6: We like having the insurance company pay our taxes and insurance as part of our monthly payment. Can we do that with a reverse mortgage?*

A: No. You won’t be making monthly payments, so the lender can’t create an impound account for your taxes and insurance. You can set aside a portion of each monthly payment you receive to cover taxes or insurance, or use your line of credit to pay those bills. But you will be responsible for paying them. *(Note: FHA guidelines do allow lenders to pay taxes and insurance and add those costs to the balance of the loan. Few choose to offer this option as there is no provision for allowing them to charge a fee for the service.)*

# **Enhancements to FHA Loan Programs**

There are several specialty programs offered by the FHA to promote home ownership in specific markets, encourage energy efficient construction methods and help homeowners who are facing the loss of their home. They are enhancements that can be applied to most or all of the programs already discussed, but not to the HECM loan.

## Good Neighbor Next Door Program

The Good Neighbor Next Door (GNND) program encourages K-12 teachers, firefighters, EMS workers and policemen to become homeowners by purchasing HUD-owned properties located in a revitalization area. The goal is to bring these professionals back into typically inner-city areas that have experienced “urban flight.”

FHA offers these homes under the GNND for the first 5 days that they are on the market. If a qualifying buyer purchases the home, the FHA provides a first mortgage for 50% of the purchase price and a second mortgage for the balance. The monthly payment is based only on the first mortgage.

The second mortgage is forgiven if the homebuyers stay in the home for 3 years. If the buyer moves out or sells the home before the 3 year anniversary of the purchase, the second mortgage becomes due and payable, but the balance due is prorated based on how long the homebuyer stayed in the home.

## [Energy-Efficient Mortgage Program (EEM)](http://www.hud.gov/offices/hsg/sfh/eem/eemhome.cfm)

The FHA EEM Program allows a borrower to finance 100 percent of the expense of energy efficient property improvements and provides a 2% increase in both DTIs. Because the home is energy efficient, the occupant(s) will save on utility costs, and therefore, be able to devote more income to their monthly mortgage payment. The EEM enhancement can be used in conjunction with other FHA insurance programs such as the 203(b) and 203(k).

The improvements are qualified if they are a “cost effective energy package,” which is defined as one where the cost of improvements, including maintenance, is less than the present value of the energy saved over the useful life of those improvements. Energy efficiency improvements can include energy saving equipment, and active and passive solar technologies.

## Other Programs

FHA has additional specialty programs that we will not cover in this course. However, it would be good for you to be aware of a few of them. They include:

* 230(h) for disaster victims
* 220(d) and 223(e) for urban renewal
* 238(c) for military or war impacted areas
* MHA (Making Home Affordable) program to modify existing unaffordable mortgages to help homeowners retain their homes.

# **FHA Systems**

In this session we are going to talk about various FHA systems that are in place that you need to consult with to close a loan. First, there is a web site address you can use to help you with FHA.  We’ll discuss how to order a case number and who will order that.  We’re going to actually examine a case number assignment sheet.  We’re going to discuss a little bit more about the Credit Alert Verification Reporting System (CAIVRS), the Limited Denial of Participation (LDP) list and the General Services Administration (GSA) list, all of which give information about certain persons prohibited from obtaining FHA insured loans.

## FHA Connection

In February of 1988, FHA put out a Mortgagee Letter informing lenders that they would no longer accept telephone calls or mail requests to secure case numbers, to check the status of cases, or to do anything else that could be accomplished through a HUD system called **The FHA Connection**.  The data on the FHA Connection is real-time, which means that the data you will see is the most available version.

Many things can be done on The FHA Connection, which is now web-based.  It makes the loans flow a lot smoother in their processing.  Some of those things you can do include requesting a case number, looking for an existing case number or submitting an insurance request for the loan, which includes all sorts of loan types such as 203(b), 203(k), HECM and refinance.

After the application has been submitted, mortgage loan originator can go to FHA Connection to track the progress or to see whether the application has been accepted or rejected. Maybe the lender needs to register a direct endorsed (DE) underwriter or FHA inspector, or assign a case to these people.  Lenders can also reassign a case to a different appraiser. Before FHA issues insurance for any loan, the appraiser must enter the appraisal information into FHA Connection and CAIVRS authorization is needed.

When the HOC endorses the loan, FHA will issue a certification to the lender through FHA Connection. This certificate is called the MIC (Mortgage Issuance Certificate). If HOC rejects the loan, the system will issue a Non-Endorsement Notice of Rejection (NOR), also via FHA Connection.

Mortgage loan originators or other parties can also access FHA Connection to print out reports about cases. Each originator should have an organizational ID from its coordinator. You can contact your coordinator to help you obtain your own user ID. Most likely, the coordinator will direct you to the FHA Connection to complete a registration form. Just follow the directions.  You will be prompted for your FHA assigned I.D.  Remember that the I.D. and password, which you will create in conjunction with this, are case sensitive.

Alternate contact methods include the email address, [**sfadmin@hud.gov**](mailto:sfadmin@hud.gov).  This is the address you can use to contact FHA if you have any questions regarding the site that we’re going to discuss.  You can find help on data fields, a help menu, screens, and for basic questions you can email them to get your questions answered. Alternately, you can use [**https://entp.hud.gov/clas**](https://entp.hud.gov/clas)

## Case Number Assignment

For each FHA loan, a case number is assigned to your particular loan file.  That case number is a control number and is used throughout the life of the file, all the way from origination through processing, the closing, and is used the entire term of the loan.  FHA Connection is now used to order those case numbers.  The loan processor can pull the form up on the computer, fill it out, submit it and then immediately receive a case number.

To cancel a case number, lenders must send an e-mail in PDF format to the HOC. Each case cancellation request must be on company letterhead. On the letter, state the case number, borrower’s name, address, requestor’s name and 10 digit ID, phone number and the reason for canceling the case. You should also state whether the appraisal has been completed, what date the appraisal was performed and who performed the appraisal.

There are various reasons to cancel an FHA case number. For example,

* An appraisal has not been completed and the borrower will not close the loan as an FHA loan
* The FHA mortgage insurance will not be sought, or the loan was closed conventionally rather than with FHA
* The appraisal has already expired
* The case number is not correct. You might have ordered a non-HECM ADP code rather than an HECM ADP code that you actually need.

FHA’s systems automatically cancel an uninsured case number 13 months after the last action taken on the loan/case. If a case number has been canceled, and FHA insurance *will* be sought, the lender must fax a request to the appropriate HOC, requesting that the case number be reinstated to an active status.

If a borrower wants to close the loan with another lender, then the lender who entered the case into FHA Connection must transfer the case number to the new lender. You cannot refuse to transfer a case to another lender.

## FHA List of Approved Inspectors and Appraisers

Another list you can pull through The FHA Connection is a list of inspectors and appraisers.  Lenders today are allowed to choose the appraiser and the inspector from that list provided by FHA.  The Case Number Assignment Sheet also lists the choice of that appraiser or inspector.

You need to choose your appraiser and inspector if you need one before completing the form.  If you don’t insert the inspector or appraiser, FHA simply will not assign a case number and it will hold up your process.  You will need to choose an inspector if a property is either under construction or if it is under substantial rehabilitation under the 203k Program or if it a proposed construction property.  In those cases you must have the appraiser as well as the inspector.

You may not know whom to choose as an inspector or appraiser.  In that case HUD has provided a web site search engine to use to pull a list of FHA approved appraisers and inspectors.  Your loan processor will normally do this, but the web site is as follows:

<http://www.hud.gov/lenders1.html>.

This is a good site.  Your processor can pull the names on these lists in any number of fields.  It can be city, state, or the status of the personnel.  It can even be the field office or the zip code.  So this is a good link for you to use to resource appraisers and/or inspectors you may need.

## ADP Code

The ADP Code labels the specific loan type and identifies the underwriting type (Direct Endorsement or HOC).  The reason for the ADP code is to classify the loan.  The chart breaks down different FHA programs such as 203(b), 203(k), 245(a)…etc so that a code can be assigned to different types of loans and makes it easier to identify.

The case number assigned by FHA will have a suffix, which is the ADP Code.  For example, look at the first line, if the FHA approved lender is under the direct endorsement program, the ADP Code would be 703.

This code number needs to appear on all the loan documents in file, including the note and the security instrument, whether a deed, mortgage or deed of trust.  Remember, the ADP code together with the case number is the control number for this client on this particular loan.  No one else will have this number.

Let’s take a minute to look at the ADP Code Chart.  We’re not going to read through the entire chart, but we will discuss some important aspects.

Look on the left-hand side at the very top where you will see the *Section of the Act*.  The first one there is the 203b program.  You’ll remember from another session that 203b is for a fixed-rate mortgage.

Look over to the next to last column on the right where it says *Section of the Act ADP Code for Direct Endorsement*.  You see the 703 is there.  That’s the number you would use instead of 203b if you happen to be working for a direct endorsed lender.  That simply tells FHA that this particular underwriter is direct endorsed.  203b has several different programs under it and you’ll notice those here.

Further down the chart on the left-hand side you’ll see 234c.  This is your condominium section.  This has different types of loans in it, but again if you’ll look over to the right you’ll see the number for the direct endorsed underwriter is 734.  Again these numbers need to match so that the control number will be correct for your client’s loan.

The most important item to remember about the ADP Code Chart for you as the mortgage loan originator to make sure that your processor understands what code applies. This is extremely important so make this part of your due diligence.  As you go through the file, make sure this is one item that is absolutely correct.

## Credit Alert Verification Reporting System (CAIVRS)

The last item on your case number assignment sheet is the Credit Alert Verification Reporting System (CAIVRS). CAIVRS is a federal government-wide repository of information on:

* + - 1. those individuals with delinquent or defaulted Federal debt, and
      2. those for whom a payment of an insurance claim has occurred.

This system is used to determine if your client is eligible for an FHA insured loan, given that they may have had one in the past and defaulted in some way that would make them ineligible for this loan.  The only exception to this is if your client is doing a streamlined refinance.  Then obviously they already have an FHA product and the CAIVRS would not need to be run to check on them.  It’s an obligation of the lender to screen every single borrower through the CAIVRS.  That’s why the system was created and why it’s now included on the Case Number Assignment Sheet.  They want to make sure that this is done.

CAIVRS can be accessed from HUD’s website at:

<https://entp.hud.gov/caivrs/public/home.html>

Each lender should get an ID for their institution. Do so by selecting “Registering Lender User ID” from the main menu, and requesting at least one Application Coordinator User ID, as well as a Standard User ID for each individual user. Once you get the ID, you can go onto the same site to do “CAIVRS prescreening” on your specific client.

A client may have previously been delinquent or have had a claim paid.  Remember.  FHA is not a lender; it is an insurance company.  When a lender loses money because of a default on a loan, FHA pays the lender under an insurance program.  If a client has had a claim paid on his/her behalf and FHA had to step in, then that borrower is not eligible if the claim was paid within the last three years.  Of course, there are exceptions to this, so let’s talk about these.  Some clients may have been involved in a bankruptcy where the claim was paid and yet they may still be eligible.

1. **Bankruptcies** are caused by a wide variety of circumstances and these may have been beyond control of your borrower.  There may have been some long term sickness in a family.  Maybe he/she worked somewhere where a factory closed and he/she lost his/her job.  Or maybe a spouse died who was the principal wage earner.  Any number of situations can cause a bankruptcy.  With your documentation of any of these situations your client may be eligible even though a claim was previously paid on his or her behalf.
2. Sometimes a **divorce** situation results in a foreclosure.  In that case your borrower may still be eligible.  It all depends upon what is said in the divorce decree and separation agreement as to who assumed responsibility for paying for the property.  What you have to watch here is if a claim was paid at the time of the divorce, then the borrower is not eligible.  It has to take place after the divorce is final and whoever retained the house did not pay for it and FHA stepped in.  In that case your borrower may still be eligible if they were not the one responsible for paying for the house.
3. If your client sold a formerly insured FHA property through an **assumption**, whether or not he or she got a release of liability, and the person to whom he/she sold it defaulted on the mortgage he or she may still be eligible for another FHA insured product.  Here you need to make sure that the property was not in default as it was sold and assumed.  If it was in default at the time of the assumption, obviously your borrower is not eligible.  If it was sold and the subsequent borrower (the person to whom he/she sold the property) defaulted on the loan, your client may still be eligible to have an insured FHA product.
4. **Handling Incorrect CAIVRS Information**

Any type of record keeping is subjected to human error.  Your loan processor can assist you on your efforts to obtain an authorization code from the credit alert system.  That authorization code should be entered on the Mortgage Analysis Worksheet.  In the case of questions or disputes by your client, the local HUD office can give information regarding your client.

Remember, there’s a three year waiting period before a client is eligible for another FHA insured property.  The local HUD office can help you in checking time periods and verifying that the social security number is correct.

Many times records can be incorrect, as in the case of credit reports.  There’s a monumental amount of information and sometimes it gets confused.  The local HUD office will give your lender instructions on how to handle problems dealing with erroneous information as well as documentation to support the information.  Remember what you’re looking for here to prove whether or not your client is eligible.  The local HUD field office will be able to assist in this.

In general, if there is incorrect data, FHA may delete erroneous CAIVRS information falsely indicating that a borrower has defaulted on an FHA mortgage, such as incorrect social security number reporting. However, FHA will *not* remove correct CAIVRS information, even if the borrower is judged eligible for Federally-related credit. Also, if there is incorrect information reported from other Federal agencies such as the Department of Education, or Department of Veterans Affairs, FHA would not change that data on CAIVRS. The borrower and/or lender must contact those Federal agencies directly to correct or remove erroneous or outdated information.

The key is for the lender to document and justify giving an approval to a client if he/she does have a problem with the credit alert system.  If there is a problem, it doesn’t necessarily mean they cannot get an FHA loan, but the lender must justify what he or she is doing.

All the information your client needs to have about which agencies to contact is available through your local HUD office.  Give that information to your client and let them do their research.  Of course you can help them with this; you’re the mortgage loan originator, but it’s up to them to contact the appropriate agencies and to seek help in rectifying this situation.

## LDP and GSA List

There may be other scenarios besides the credit alert system which would disqualify your client from obtaining an FHA insured loan.  There are two lists that relate to this. One is the LDP list and the other is the GSA list.

The LDP is the *Limited Denial of Participation* list.  The GSA list is the General Services Administrations’List of Parties Excluded from Federal Procurement or Non-procurement Programs, called *Excluded Party List System*.  These lists are published to identify people who have been prohibited from participating in any type of FHA insured program.  These people have been suspended for any number of reasons.

The important part to remember here is that the prohibited person doesn’t necessarily have to be the borrower alone.  It can include such people as the seller, the builder, the attorney and the realtor.  This may seem a bit unfair but remember FHA is insuring this loan and they will make sure this file is crisp and clean to be funded.  If, in fact, any party to this transaction at all appears on the list, the applicant is not eligible for an FHA loan.

Exceptions occur when the seller’s property is his or her principal residence.  If your seller is the person whose name shows up on either the LDP or GSA, the applicant purchasing the property will not be disbarred from participating in the FHA insurance program.

These lists are readily available at the HUD Customer Service Center or online at <https://www.epls.gov/>and[http://www.hud.gov/offices/enforce/ecldp.cfm.](http://www.hud.gov/offices/enforce/ecldp.cfm)  The key here is to work closely with your processor to make sure none of the parties involved in the transaction appear on the lists.  Then you’ll be clear to go.  The LDP list is published monthly and the GSA list is published quarterly.

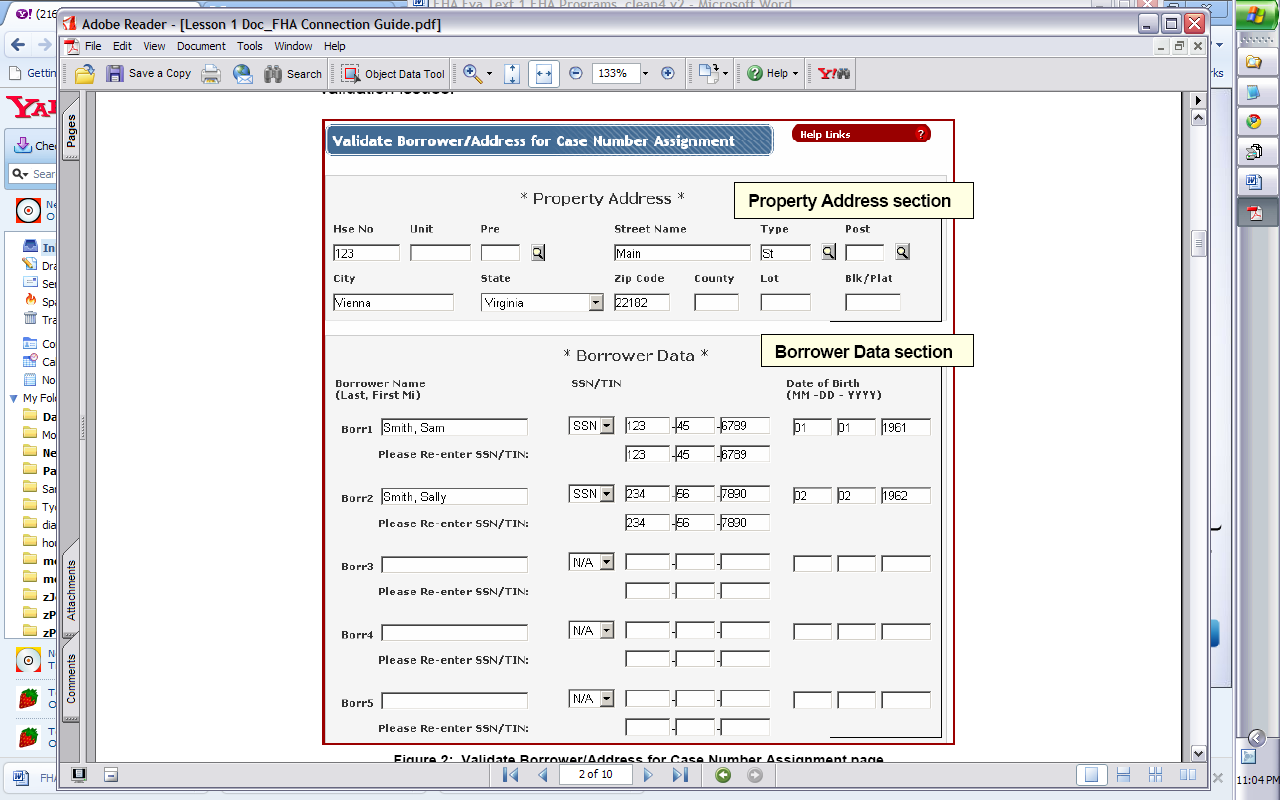
## Case Number Assignment Workflow

As you know, a case number is a MUST for a FHA insured loan. So, below we are going to go through the workflow to get this number and to get the loan done with FHA. We have already spoken about how to get an ID and a password to get into FHA Connection. Once you are logged in, go to Single Family FHA, then Single Family Origination, then Case Processing, then Case Number Assignment.[[8]](#footnote-8)

Under Case Assignment, you will find three functions you can perform. First is to establish a new case. Then, you can update existing case before the case is endorsed. There is a third function called “Holds Tracking”. It is used to track the progress of the case basically. For example, you can go there to see if the borrower’s social security number has been validated by the government. Or, if the case is put on hold, you can check for hold reasons.

There are two main steps you need to take to establish a new case on FHA Connection

1. Validate borrower’s address and borrower’s personal information
2. Case Number Assignment Page, where you have to fill in much more details such as transaction parties info, loan information, property types, inspectors, appraiser…etc
3. **Validate Borrower and Address**



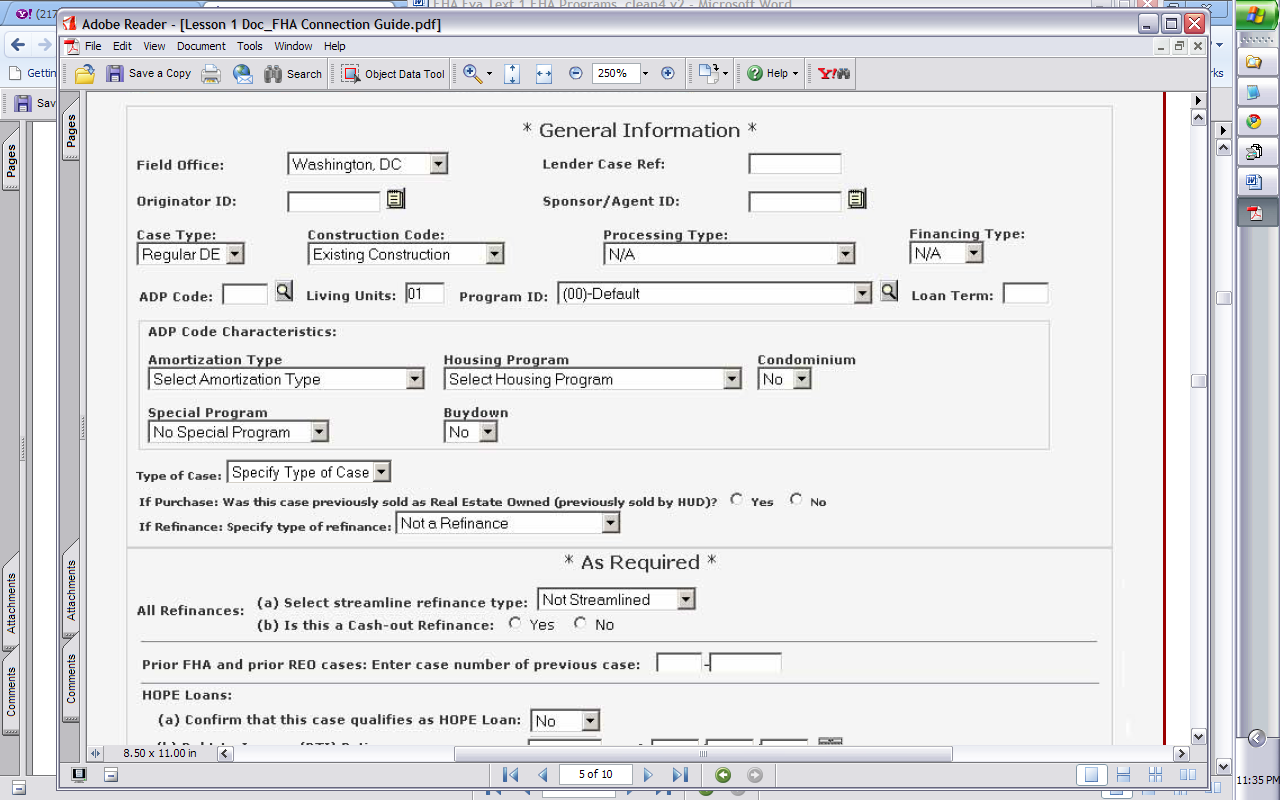
A property address is important.  As you see from the above screen shot, there are places for the house number, the unit, the street, the type, even the lot and block, because you may use those.  You need to put in the city, state, zip code and the county on this form. You have to enter the address to make sure that it is a legitimate home address. For example, the street name you entered should really belong to the zip code you entered.

What you entered will be compared against the database on the United Postal Service. Sometimes very new buildings might not be on the database yet because it updates on a quarterly basis only. When you first entered the case number application, it is fine if the address is not verified against the Postal Service database, but before FHA is willing to endorse the loan application, the address needs to be validated.

Then, you need to validate the borrower by entering the borrower’s social security number. The system will check the CAIVRS, which is the Credit Alert Verification Reporting System.  This helps make sure that your client has not defaulted on any types of federally insured loans which would make them ineligible for FHA financing. Also, the system will check the Social Security Administration (SSA) system overnight. Come back to the system the next business day to ensure that everything checks out.

**Case Number Assignment Page**

***General Required Information***



There is a space here for the *Field Office, the Originator*, as well as a *Sponsor/Agent I.D.* if you need one.

Look at *Case Type*.  You’ll notice that it says ‘regular DE’ (direct endorsed).

You’ll notice the *Construction Code* that tells you the status of the property.

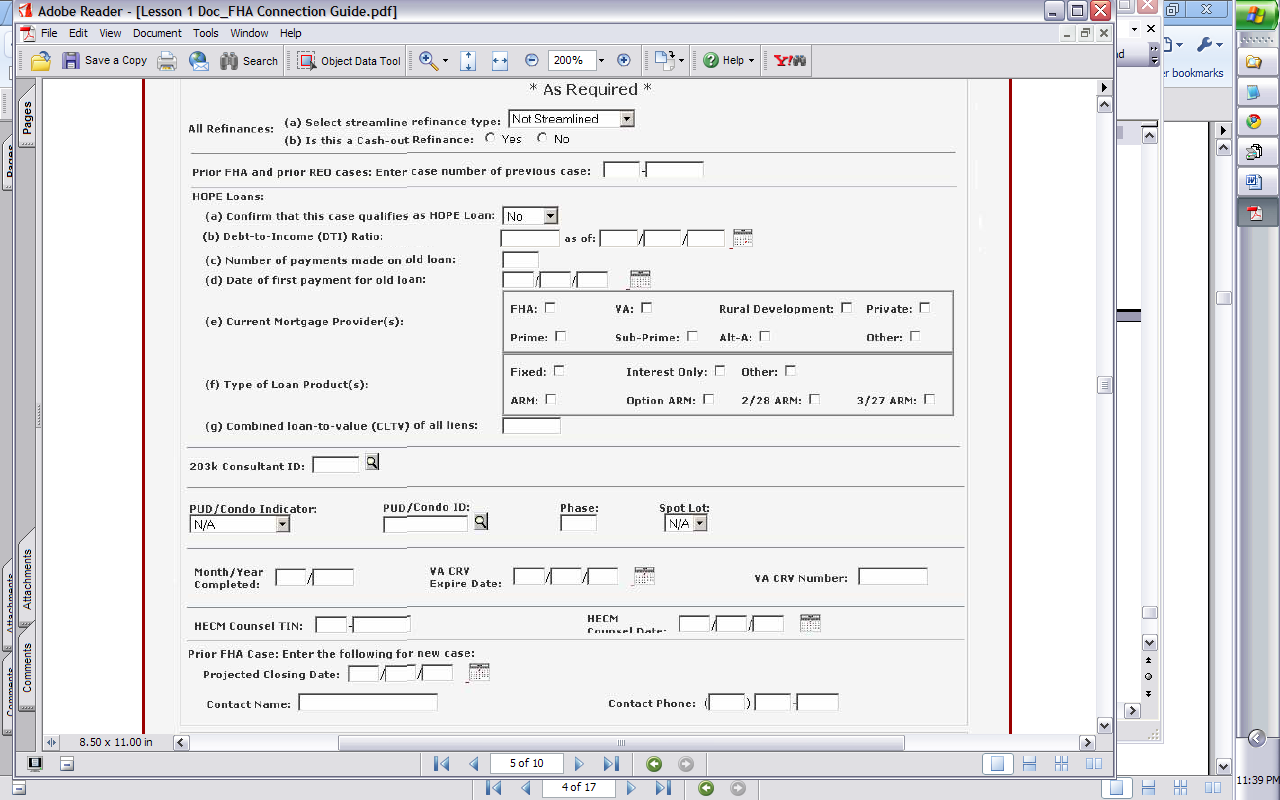
There are blocks for the *Processing Type* and the *Financing Type*.

The *ADP Code*, which we discussed, is 703 for a lender who has a direct endorsed underwriter.  This is not as confusing as it sounds.  This is really the 203 Program, except where the lender is direct endorsed (DE).  Then they are labeled as 703.

You’ll notice there is a space for the number of *Living Units* in the building and the *Program ID*.

***As Required***

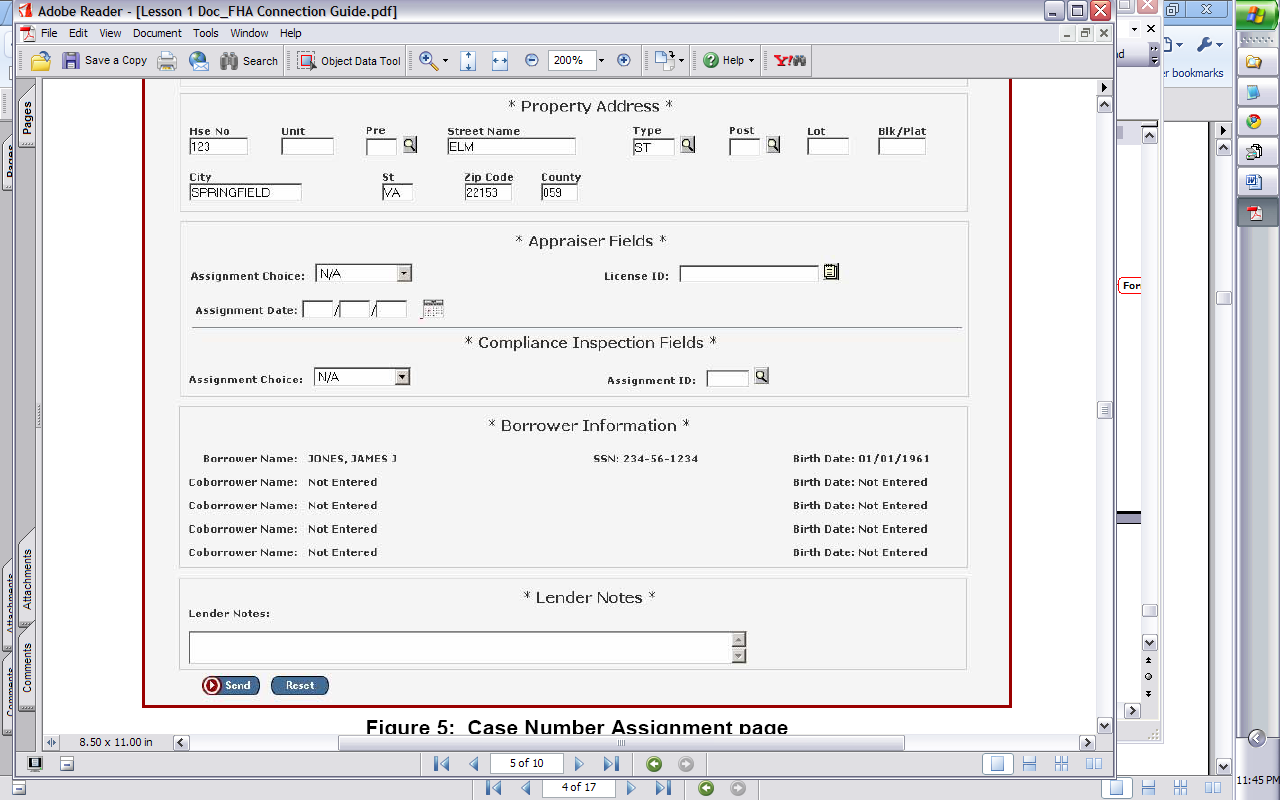
The next section is the “As Required” section. You only need to enter data if it is pertinent to the deal you are working on.



* 1. Refinance; If you are working on a refinance deal, and if it is a Streamlined Mortgage. Enter the case number of the previous FHA loan in the next block if that’s the case..
  2. REO: If the building you are working on is a FHA REO, then also put in the case number of that mortgage.
  3. HOPE Loan: The next block is for HOPE loan. Again, you should enter the case number if available. Enter all the info relevant for the previous loan such as number of mortgage payments made on the old loan.
  4. Rehabilitation Loan (203(k): If you are hoping to make a loan pursuant to 203(k), you should enter the 203k consultant ID.
  5. Condo: The next block is the information for your condominium projects or your planned unit developments.  Again, just basically fill in the blank. If your condo is on the FHA approved list, you should be able to retrieve the ID. This information should be consistent with what’s on your appraisal report.
  6. VA: Enter your VA information if your borrower qualifies.
  7. HECM. For a reverse mortgage, enter the counseling information.
  8. The next block contains the *Projected Closing Date* as well as a place for *contact names* and *phone numbers*

***Address/Appraiser/Inspection/Borrower Information***

In the next few sections, enter the relevant information related to appraisal and inspection. Also, enter address and borrower information.



First is address information. It should have been automatically populated for you from the previous validation screen you were in.

1. The next block is the *Appraiser* choice that you have made.  Simply put the appraiser you want in here with the license I.D. and the date the assignment was given to the appraiser.
2. Below that you will find the *Inspection* field.  This is where you will put in the inspector you choose and his or her I.D.
3. The final block is the *Borrower Information*.  Put the names of the borrower and any co-borrowers with their social security numbers. Again, the information you put in previously should show up here.

After you have completed this form, just press “Send.” If the information is processed successfully, you will get the case number. This number will follow this file all the way through the lending process.  Remember to go back to the system the next business day to see if the borrower’s social security number checked out with the validation system. If it is not validated, FHA cannot endorse the loan.

Remember, you can go back to the same site to update information for the case. Just enter the case number and FHA Connection will retrieve the existing file for you.

1. “The Federal Housing Administration,” (2006) http://www.hud.gov/offices/hsg/fhahistory.cfm [↑](#footnote-ref-1)
2. HUD 4155.1 4.A.2.b. [↑](#footnote-ref-2)
3. Mortgagee Letter 2013-05 [↑](#footnote-ref-3)
4. HUD Mortgagee Letter 2013-05 [↑](#footnote-ref-4)
5. Federal Register/ Vol. 78, No. 25 / Wednesday, February 6, 2013 / Notices [↑](#footnote-ref-5)
6. <http://portal.hud.gov/hudportal/documents/huddoc?id=12-18ml.pdf> Mortgagee Letter: 2012-18 Date: September 13, 2012 [↑](#footnote-ref-6)
7. <http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203k--df> [↑](#footnote-ref-7)
8. Only certain approved employees from a lender can access FHA Connection. See the login screen here: https://entp.hud.gov/clas/index.cfm [↑](#footnote-ref-8)