

FHA Financing - All You Need to Know

2 Hour Continuing Education Course

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What We'll Discuss

- Introduction and Purpose
- The Federal Housing Administration (FHA)
- FHA Product Guidelines
- Homebuyer Loan Process
- Loan Requirements
- Break
- Property Guidelines
- Borrower Qualification
- FHA Compliance & Regulations
- Helpful Resources
- Questions

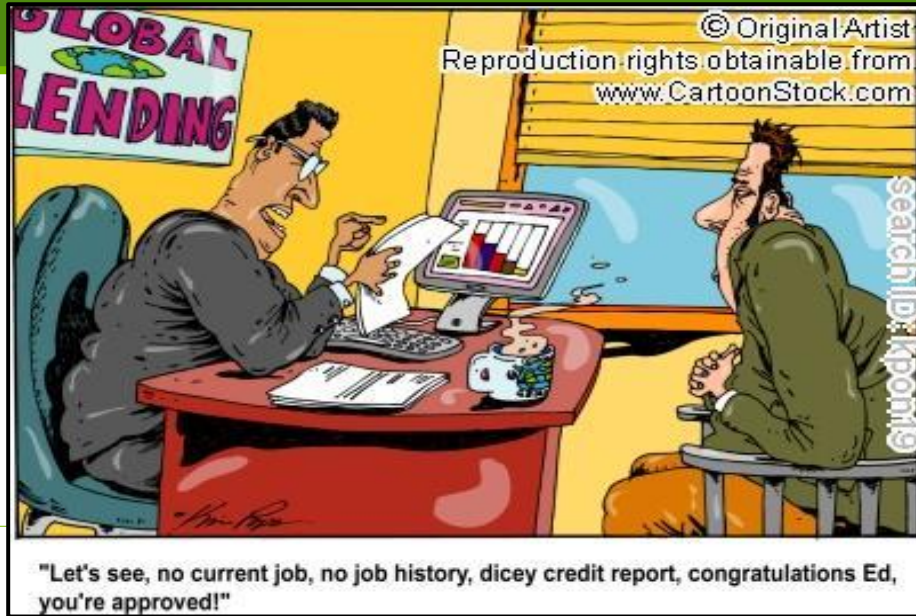


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The Mortgage World HAS Changed...



The "What" and "Why" of FHA Loans

- What is the Federal Housing Administration?**
 The Federal Housing Administration (FHA) – which is part of HUD – insures the loan, so your lender can offer you a better deal. It is the largest insurer of mortgages in the world, insuring over 34 million properties.
 - Low down payments
 - Low closing costs
 - Easy credit qualifying
- How is FHA Funded?**
 FHA is entirely self-sufficient. The FHA relies on the proceeds from mortgage insurance paid by the homeowners to fund the program.
- How Long Has FHA Been Around?**
 The Federal Housing Administration (FHA) was established in 1934 to improve housing standards and conditions and to provide an adequate home financing system through insurance of mortgages. Families that would otherwise be excluded from the housing market during the Great Depression were finally able to buy the homes of their dreams.



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FHA Loan Programs

- **Single Family Home** - Standard FHA 203(b) loan.
- **203K** - FHA major home improvement, rehab loan.
- **Cash-Out Refinance Loans** - Up to 85% of properties value cash-out refinance.
- **HUD Homes** - Properties for Sale and Financed by FHA
- **FHA adjustable rate mortgages (ARM)** - Standard FHA ARM, Adjustable Rate Mortgage
- **FHA Buydown Loans** - FHA 1/1 or 2/1 buy down loan.
- **Reverse Mortgages** - HUD reverse mortgage for seniors over 62



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FHA Borrower Eligibility

- No income restrictions.
- US Citizenship is not required.
 - **Permanent Resident Aliens** are eligible under the same terms as United States Citizens. The borrower must show evidence of Green Card information.
 - **Non-Permanent Resident Aliens** may be eligible if satisfactory evidence of legal residency and eligible to work in the United States is documented.
- Borrower(s) must have a valid SSN.
- Maximum Debt Ratios of **31/43%**

Product Types:	<ul style="list-style-type: none"> • Fixed Rate • Adjustable Rate
Property Types:	<ul style="list-style-type: none"> • Single Family Detached & Attached • 2-4 Unit Properties • Modular Homes • HUD-Approved Warrantable Condominiums & PUDs • Leaseholds (with restrictions)
Multiple Mortgages:	Only one FHA-insured mortgage allowed at one time, except for: <i>Non-occupying co-borrowers, relocation of 50 miles or greater, expanding families, vacating a jointly owned property.</i>



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FHA Borrower Eligibility

Occupying Co-Borrowers:

- Co-Borrower must take title to the property and sign the note and mortgage documents.
- Co-Borrower must complete a loan application and a complete underwriting of income, credit and assets is required. The co-borrower will be qualified the same as the primary borrower.
- The co-borrower cannot be a person who is a third party to the purchase transaction: seller, realtor, builder, or appraiser.

Non-occupant Co-Borrowers:

- 1 unit purchase and rate term refinance transactions ONLY
- Maximum financing is permitted when borrowers are related by blood, marriage or law.
- Maximum LTV 75% is required when the non occupant co borrower is not related **or** a parent is selling to a child and is a non occupant co-borrower.
- The non occupant's creditworthiness is reviewed; income, assets, liabilities and credit history is required to be documented.
- The non-occupying co-borrower must sign the security instrument, note and will take title.



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Criteria for Quoting Rates:

Loan Size	LTV	CLTV	Credit Score	Credit History
Escrow Preference	Closing Date	Loan Type	Property Type	Occupancy Type
Residency	Available Assets	Asset Seasoning	Co-borrowers	Debt Ratio
Housing Ratio	Improvements Needed	Employment Type	Documentation Available	Relocation
	Seller Contributions	Cash-out		



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Homebuyer Loan Process What is a Pre-Qual & Pre-Approval

- **Pre Qualification:** Lenders opinion that the borrower would receive an approval based on "Non Verified" information from the borrower.
- **Pre Approval:** Factual findings from an underwriter of the borrower's credit, assets, & income in regards to loan approval.



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Required Documents for Pre-Approval

- Pay stubs (1 month)
- Tax returns & W-2 forms (2 years)
- Two most recent bank statements
- Copy of valid driver's license
- Two year history of residence for all borrowers
- Name, address and telephone number of all landlords (past 2 years)
- Employer's name and address (last 2 years)
- Pension and/or Social Security Awards Letter (if retired or receiving other non-earned income)



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FHA Homebuyer Loan Process Who Does What???

Mortgage Loan Originator

- Assists you in completing the loan application
- Discusses qualifying, monthly payments and cash needed for closing
- Explains various loan programs available and quotes interest rates
- Communicates documentation requirements
- Answers any questions you may have throughout the process
- Attends closing whenever possible

Processor

- Communicates with you on items necessary for your loan closing
- Pre-underwrites and prepares loan for approval
- Works with all parties involved with the loan process



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FHA Homebuyer Loan Process Who Does What???

Continued...

Underwriter

- Renders final decision on your loan
- Works directly with Loan Originator and Processor to approve your loan

Closer

- Sets or verifies closing date after loan has been approved
- Assembles package for your closing day
- Sends package to the title company



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Loan Requirements



- Max Loan Limit = \$271,050
- 3.5% down payment
(Lesser of Sales Price or Appraised Value)
- Borrower-paid closing costs & Up Front Mortgage Insurance may NOT be used to meet the 3.5% minimum cash investment
- Entire down payment may come from gift
- Reserve Requirement = 2 months
- Grants/Down Payment Assistance allowed
- Seller contributions up to 6%
- 100% - 3.5% = 96.5% LTV



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FHA Loan Scenario: John Homeowner

Lesser of Sales Price OR Appraised Value	\$100,000
3.5% Down Payment	\$3,500
Total Closing Costs & Prepays (except UFMIP)	\$5,000
Seller's Contribution	\$3,000
Buyer-Paid Closing Costs, Prepays, etc.	\$2,000
Base Loan	\$96,500
Final Loan with 1% (Upfront MIP)	\$97,465

- FHA 3.5% Min. Contribution: **\$3,500**
- Full contribution applied to Down Payment
- No Variable LTV Allowed
- Base loan amount = 96.5% LTV
(lower of sales price or appraised value × 96.5%)

TOTAL CASH TO CLOSE:

$$\mathbf{\$3,500 + \$2,000 = \$5,500}$$



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FHA Loan Scenario: John Homeowner

Principle & Interest (4.5% for 30 years)	\$493.85
Homeowner's Insurance	\$58.00
City & Parish Taxes	\$75.00
Private Mortgage Insurance (1.15%)	\$92.48
Total Monthly Payment	\$719.33

TOTAL MONTHLY PAYMENT

\$719.33



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Mortgage Insurance Requirements

Borrower Paid Upfront & Annual Mortgage Insurance Premium (rates effective April 18, 2011)

Annual Premium		Upfront Premium
(30 Years)		
≤ 95%	1.10%	1.00%
> 95%	1.15%	
(15 Years)		
≤ 90%	.25%	1.00%
> 90%	.50%	



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Property Guidelines

- Termite Letter not required unless infestation noted on appraisal or required per sales contract, mandated by state, or lender's discretion.
- Septic Letter required only if: evidence of system failure, property is vacant, or lender's discretion.
- Home Inspections not required but recommended by FHA... For Your Protection Get A Home Inspection
- Licensed professional report required if appraiser deems necessary:
 - Standing water against foundation, or excessively wet basement
 - Hazardous materials on site
 - Faulty mechanical systems: electrical, plumbing, or heating
 - Structural failure: settlement or bulging foundation walls
- Each property shall be provided with vehicular or pedestrian access by a public or private street. Private streets and shared driveways must be protected by permanent recorded easements or be owned and maintained by a Home Owners Association (HOA).



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Your Listing As Seen by
You, the Home Buyer, the Lender,
the Appraiser, and the Tax Assessor



How
you
see your
new listing



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How the
home buyer
sees your
new listing



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Your Listing As Seen by
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How the
lender
sees your
new listing



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Your Listing As Seen by
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How the
appraiser
sees your
new listing



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Your Listing As Seen by You, the Home Buyer, the Lender, the Appraiser, and the Tax Assessor



How the
tax assessor
sees your
new listing



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Appraisal Information

- Appraisers must be on FHA's approved list on the FHA Connection (this verifies the Appraiser is currently licensed and in good standing with both the state and with HUD.)
- The lender must provide the appraiser with a case number for their report.
- FHA Appraisals are good for :
 - 180 days (existing construction)
 - 12 months (proposed construction)
- Appraisal Requirements:
 - Must include the estimated remaining economic life.
 - VC sheets, 3 photos (front, rear and street view of subject house) are required, a room sketch of interior, a location map of subject and all comps is required.
 - Appraisers must identify all sales activity on the subject and the comps for the prior 3 years.
 - If the Seller has not owned the subject property for over a year, the underwriter must obtain information on the price the seller paid for the property and the exact date the seller purchased property.



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Repair Policy

Repairs that are no longer required to existing properties:

- Missing handrails
- Cracked or damaged exit doors that are otherwise operable
- Cracked window glass
- Defective paint surfaces in homes built after 1978
- Minor plumbing leaks such as faucets
- Worn or soiled floor coverings or finish
- Rotten or worn out counter tops
- Damaged plaster or sheet rock or other wall and ceiling material on homes constructed after 1978
- Poor workmanship
- Trip hazards such as sidewalks or badly installed carpet
- Lack of all weather driveway surface



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Repair Policy

Required Repairs

- Inadequate access/egress from bedrooms to exterior of home
- Leaking or worn out roofs
- Structural problems such as foundation damage caused by settlement
- Defective paint surfaces in homes built before 1978
- Defective exterior paint on homes built after 1978 where finish is unprotected



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Repair Escrow Policy

- FHA permits escrow for repairs on a **203(b)** in the event certain repairs cannot be completed prior to loan closing. Regions Mortgage will escrow for repairs when the following conditions are met:
 - The subject property is habitable, safe, and essentially complete,
 - The work involved is minor and uncomplicated,
 - The funds held in escrow are a minimum of \$500 and 150% (1½ times) of the actual cost of repairs,
 - The repair escrow cannot exceed \$5000,
 - The repairs must be completed within **30 days, and**
 - Obtain a final inspection as evidence the repairs have been completed.



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Sales Contract Guidelines

- **Sales Contract requirements protect the borrower.**
 - Amendatory Clause
 - FHA Real Estate Certification
- **Omit allowances from Sales Contract.**
 - Allowances would include moving expenses, decorating allowance, personal property, etc.
 - Could cause additional cash out of pocket
 - Dollar-for-dollar reduction in the sales price means the borrower must qualify with more liquid assets



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Borrower Qualification

Credit Guidelines

- **Minimum Credit Score** - 580
- **Non Occupying Spouse** - Required to count all debt for qualification purposes.
- **Non Traditional Credit** - When evaluating a borrower with non-traditional credit history, a satisfactory credit history, at least 12 months in duration, must include:
 - no history of delinquency on rental housing payments
 - no more than one 30-day delinquency on payments due to other creditors, and
 - no collection accounts/court records reporting (other than medical) filed within the past 12 months.
- **Student Loans** - If a debt payment, such as a student loan, is scheduled to begin within twelve months of the mortgage loan closing, the lender must include the anticipated monthly obligation in the underwriting analysis, unless the borrower provides written evidence that the debt will be deferred to a period outside this time frame.



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Borrower Qualification Bankruptcy Guidelines

- **Chapter 7:** A Chapter 7 bankruptcy (liquidation) does not disqualify a borrower from obtaining an FHA-insured mortgage if at least two years have elapsed since the date of the discharge of the bankruptcy. During this time, the borrower must have
 - re-established good credit, or
 - chosen not to incur new credit obligations.
- **Chapter 13:** A Chapter 13 bankruptcy does not disqualify a borrower from obtaining an FHA-insured mortgage, provided that the lender documents that
 - one year of the pay-out period under the bankruptcy has elapsed
 - 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 bankruptcy court to enter into the mortgage transaction.



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Credit Score - What is it?

- Credit scores are calculated from different credit data in your credit report. The most common credit-scoring system was developed by the Fair Isaac Corp. (FICO) and is used by major credit bureaus to evaluate your credit history. The system considers factors like how many credit cards you have and how quickly you pay your bills, and assigns you a rating between 300 and 850.
- Two of the most important factors affecting your score are your payment history and whether you've had any collections. Other factors include amounts owed, types of credit used and length of credit history.

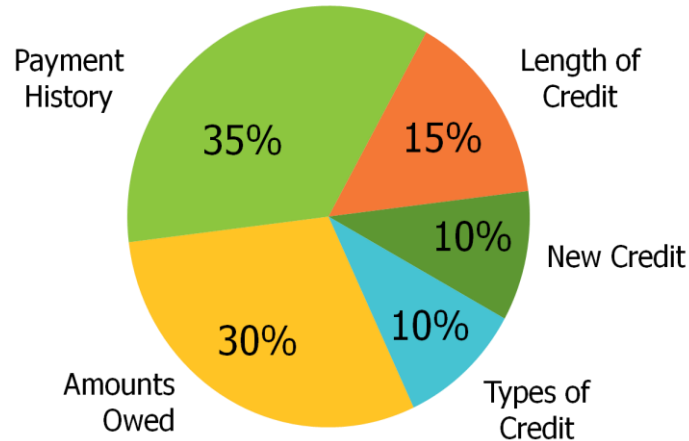


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Credit Score Components



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Credit Solutions

Solutions for *Low* Score: **Equifax CreditXpert**



- Assists borrowers in maximizing credit scores
- Analyzes credit and cash available
- Issues customized feedback
- Provides approximate credit score increase



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Checking Your Credit Score

- Under federal law, you have the right to obtain a free copy of your credit report from each of the nationwide consumer reporting agencies (Equifax, Experian and Trans Union) once a year.
- To order your free credit report:
 - By telephone: (877) 322-8228
 - On the web: www.annualcreditreport.com
- Credit Bureau Phone #'s:
 - Equifax (800) 997-2493 or www.Equifax.com
 - Experian (888) 397-3742 or www.experian.com
 - Trans Union (800) 916-8800 or www.tuc.com



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Borrower Qualification

Credit Debt Monitoring

- **Undisclosed Debt Monitoring**

Requires lenders to monitor a borrower's credit activity for inquiries and new tradelines up to the time of loan closing that we have included all of the borrower's debt in qualification for each loan we deliver.



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Regions Mortgage Credit Monitoring Letter

Thank you for choosing Regions Bank d/b/a Regions Mortgage for your mortgage financing needs. It is important that we have an accurate representation of your financial commitments so we can determine if you qualify for your loan. **Each time someone requests your credit report, an inquiry is noted on the report.** The most common reason this occurs is in connection with an application for credit such as a mortgage loan, auto loan, credit card, etc.

We will continually monitor your credit activity during the loan application process, and may obtain a new credit report prior to closing. New accounts and inquiries may impact your loan approval or loan closing as they can represent a change in your financial obligations. You must be qualified with any new accounts that resulted from a credit inquiry.

What you should do:

1. Please review the Liabilities Section of your initial and final Uniform Residential Loan Application. **If you have any accounts that are not listed on your loan application, you must disclose them to Regions Mortgage and attach a billing statement indicating the balance owed with monthly payment.**
2. Additional debts not in liabilities section:

By signing this Explanation Letter in the spaces below, you certify that (1) the liabilities section on your loan application is accurate and complete and (2) no additional debts have been incurred as a result of these inquiries.

Borrower Signature

Date



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Borrower Qualification Employment History

- **Employment History** - FHA **does not** require a minimum length of time that a borrower must have held a position of employment. However, the lender must verify the borrower's employment for the most recent two full years, and the borrower must:
 - explain any gaps in employment that span one or more months, and
 - indicate if he/she was in school or the military during the most recent two full years, providing evidence supporting this claim, such as college transcripts or discharge papers.



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Borrower Qualification

Income Guidelines

- **Self Employed** - A borrower with a 25% or greater ownership interest in a business.
 - Must have at least two years of employment in the line of work in which he/she is self employed.
- **Projected Income for a New Job** - Acceptable for qualifying purposes for a borrower scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.
- **Overtime, Commission or Bonus Income** - An average of the most recent 2 years (per W-2's) and current YTD gross income must be averaged. The income amount to be used must be the lesser of current YTD or the 2-year average.
- **Part Time Income From a 2nd Job** - A 2nd job may be used for income if the Borrower shows a 2-year (or more) history of holding down the extra job. An average over the 2 years plus YTD gross must be used to qualify.
- **VA or Social Security Income** - The government agency providing the income must provide written verification of the payment. Proof of a 3-year continuance must be documented.



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Debt To Income

- Divides total of current monthly debt payments by monthly gross income
- Debt payments include:
 - Minimum payments on credit cards
 - Car payments
 - Student loans
 - Installment loans
- Debt payment **do not** include:
 - Utilities
 - Insurance
 - Child care
 - Rent (if not renting anymore)
- Max Ratios = 31%/43%



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Qualifying Debt to Income Ratio

The **front end** maximum ratio to qualify is 31%.

Total amount of new house payment:	\$750
Total Gross Monthly Income	\$ 2,850
Divide total house payment by gross monthly income:	\$750/\$2,850
Debt to income ratio:	26.32%

The **back end** maximum ratio to qualify is 43%.

Total amount of new house payment:	\$750
Total amount of monthly recurring debt:	\$400
Total amount of monthly debt:	\$1,150
Borrower's gross monthly income	\$2,850
Divide total monthly debt by gross monthly income:	\$1,150/\$2,850
Debt to income ratio:	40.35%



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FHA Regulations

- **RESPA** - The Real Estate Settlement Procedures Act (RESPA) insures that consumers throughout the nation are provided with more helpful information about the cost of the mortgage settlement and protected from high settlement charges caused by certain abusive practices.
- **ECOA** - Equal Credit Opportunity Act prohibits lenders from discriminating against credit transactions on the basis of race, color religion, national origin, sex, marital status or age.
- **Fair Lending Act** - Prohibits housing discrimination b/c of race, color, religion, sex, disability, or national origin.
- **FHA required forms**
- **HVCC** - Home Valuation Code of Conduct , which was designed to ensure appraisals are conducted objectively & w/out pressure from parties with an interest in the transaction.



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Helpful Resources

- **U.S. Department of Housing and Urban Development (HUD)**
202-708-1112 or www.hud.gov
HUD Hotline 1-800-697-6967
- **HUD's Office of RESPA**
202-708-0502 or www.hud.gov/respa
- **HUD Housing Counselors**
1-800-569-42877
www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm
- **Buying a HUD Home**
www.hud.gov/offices/hsg/sfh/reo/reobuyfaq.cfm
- **FHA Resource Center**
1-800-CALL FHA (800-225-5342)
www.hud.gov/offices/hsg/sfh/fharesourcectr.cfm



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FHA Financing - All You Need to Know

Questions ???

If you would like
additional information,
please call:

Ashley Brint - 862-3435

Patrick Axford - 862-3429



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