# Chapter 6. Special Underwriting

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Section A. Special Underwriting Instructions

Overview

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</tbody>
</table>
1. FHA’s TOTAL Mortgage Scorecard

Introduction
This topic contains information on how underwriting uses the TOTAL Mortgage Scorecard, including

- a description of TOTAL and the TOTAL Scorecard
- a comparison of TOTAL to an Automated Underwriting System (AUS)
- TOTAL scoring recommendations
- rescoring and tolerance levels, and
- information on the TOTAL User Guide.

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4155.1 6.A.1.a Description of TOTAL
The acronym “TOTAL” stands for “Technology Open To Approved Lenders.”

TOTAL Scorecard evaluates the overall creditworthiness of the applicants based on a number of credit variables and, when combined with the functionalities of the AUS, indicates a recommended level of underwriting and documentation to determine a loan’s eligibility for insurance by the Federal Housing Administration (FHA).

Continued on next page
1. FHA’s TOTAL Mortgage Scorecard, Continued

TOTAL is not an AUS. It is a scorecard that is used within an AUS.

To underwrite a loan electronically, a lender must process the request through an AUS that can communicate with TOTAL. TOTAL operates as a system-to-system connection to an AUS.

Together, TOTAL and the AUS either conclude that the borrowers’ credit and capacity for repayment of the mortgage are acceptable or will refer the loan application to a Direct Endorsement (DE) underwriter for further consideration and review.

Regardless of the risk assessment provided by TOTAL, the lender remains accountable for compliance with FHA’s eligibility requirements, as well as for any credit, capacity, and documentation requirements not covered in the FHA TOTAL Mortgage Scorecard User Guide.

*Example:* FHA will not be responsible for checking, through TOTAL, lender compliance with maximum mortgage amounts, computing debt-to-income ratios or other functions typically performed by an AUS. TOTAL provides only an assessment of the borrower’s credit and capacity to repay.
1. FHA’s TOTAL Mortgage Scorecard, Continued

TOTAL will return recommendations of either

- “Accept” or “Approve” (different AUSs use different wording), or
- “Refer.”

The table below describes the TOTAL scoring recommendations.

<table>
<thead>
<tr>
<th>TOTAL Recommendation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept/Approve</td>
<td>This recommendation means that, based on the analysis of the credit and capacity to repay, the loan is eligible for FHA insurance provided that data entered into the AUS is true, complete, properly documented and accurate; and the documentation and other eligibility requirements are met.</td>
</tr>
<tr>
<td>Refer</td>
<td>This recommendation means that the lender must conduct a manual underwriting review, according to FHA requirements. The lender’s DE underwriter must determine if the borrower is creditworthy in accordance with FHA standard credit policies and requirements.</td>
</tr>
</tbody>
</table>

*Note:* Per FHA policy, a borrower will not be denied an FHA mortgage solely on the basis of a risk assessment generated by TOTAL.

Continued on next page
TOTAL provides a risk assessment based on the specific data entered by lenders, such as terms and conditions of the loan, income and assets. Changes in those variables can result in a different risk assessment, and FHA requires that the loan be rescored using the new information.

However, where the differences are minor, rescoring is unlikely to trigger a different risk assessment. FHA therefore, provides a degree of tolerance before triggering a requirement for rescoring.

The table below describes the tolerance level for rescoring requirements when assessing income and assets.

<table>
<thead>
<tr>
<th>When assessing ...</th>
<th>There is no need to rescore if ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>cash reserves</td>
<td>the cash reserves verified are not more than 10 percent less than what the borrower reported on the loan application.</td>
</tr>
<tr>
<td>income</td>
<td>the verified income is not more than 5 percent less than what the borrower reported on the loan application.</td>
</tr>
<tr>
<td>tax and insurance escrows</td>
<td>the tax and insurance escrows used at scoring do not result in more than a 2 percentage point increase in the payment and debt-to-income ratios.</td>
</tr>
</tbody>
</table>

FHA has developed the TOTAL User Guide, which is a compilation of the specific credit policies and documentation requirements lenders must follow when using TOTAL.

The instructions in the Guide pertain only to those mortgage applications that had a TOTAL risk assessment, including those scored mortgages referred to an underwriter for manual underwriting.

2. Temporary Interest Rate Buydowns

Introduction
This topic contains information on temporary interest buydowns, including
- purpose of a temporary interest rate buydown
- eligible transactions/mortgages
- source of buydown funds
- underwriting requirements at buydown interest rate
- additional interest rate buydown instructions
- underwriter instructions for additional interest rate buydowns
- lender escrow agreement responsibilities, and
- escrow agreement requirements.

Change Date
May 10, 2009

4155.1 6.A.2.a
Purpose of a Temporary Interest Rate Buydown
Interest rate buydowns are designed to reduce the borrower’s monthly payment during the early years of the mortgage.

At settlement, an escrow account is established. Each month, the servicing lender draws down an amount equal to the difference in the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

4155.1 6.A.2.b
Eligible Transactions/Mortgages
Temporary interest rate buydowns are permitted only on
- purchase transactions, and
- fixed-rate mortgages.

4155.1 6.A.2.c
Source of Buydown Funds
Buydown funds may come from
- the seller
- the lender
- the borrower, or
- any other interested party.

Funds from the seller or any other interested third party are considered seller contributions, and must be included in the 6 percent limit on seller contributions as described in HUD 4155.1 2.A.3.

Continued on next page
2. Temporary Interest Rate Buydowns, Continued

4155.1 6.A.2.d Underwriting Requirements for Qualifying the Borrower

While interest rate buydowns are permitted, the loan must be underwritten at the Note rate. Lenders may not underwrite at the buydown rate. Buydowns may be treated only as a compensating factor.

4155.1 6.A.2.e Additional Interest Rate Buydown Instructions

Lender-funded buydowns on fixed-rate money mortgages through premium pricing are acceptable, provided that the funds do not result in a reduction greater than 2 percentage points below the Note rate.

4155.1 6.A.2.f Lender Responsibilities

Lenders are responsible for ensuring that

- the buydown must not result in a reduction of more than two percentage points below the interest rate on the Note
- the buydown must not result in more than a one percentage point increase in the buydown rate.
- the borrower’s payment may change only once a year
- the funds described in the escrow agreement are placed in escrow before or at closing
- a copy of the fully executed escrow agreement, signed by the borrower and provider of funds is provided in the mortgage case binder, and
- the escrow agreement meets the requirements described in HUD 4155.1 6.A.1.d.

Note: The underwriter may condition the loan approval for an executed buydown agreement at closing.

Continued on next page
2. Temporary Interest Rate Buydowns, Continued

The escrow agreement requirements with which all buydowns must comply are listed below.

- Any remaining escrow funds not distributed at the time the mortgage loan is prepaid must be applied to the outstanding balance due on the mortgage.
- In the event of foreclosure, the claim for mortgage insurance benefits must be reduced by the amount remaining in the buydown escrow account.
- The escrow agreement
  - may provide that assistance payments continue to buyers who assume the mortgage
  - must not permit reversion of undistributed escrow funds to the provider if the property is sold or the mortgage is prepaid in full, and
  - must not allow unexpended escrow funds to be provided to the borrower in cash, unless the borrower established the escrow account.
- Escrow funds must be held in an escrow account by a financial institution supervised by a Federal or state agency.
- Payments must be made by the escrow agent to the lender or servicing agent. If escrow payments are not received for any reason, the borrower is responsible for making the total payment as described in the mortgage note.
- FHA does not object to having the lender hold and administer the escrow funds, for up to 60 days, when there is an outstanding forward commitment to sell the mortgage.

Note: The escrow agreement text can also apply to repair escrows.

Reference: For additional information on repair escrows, see HUD 4155.2 4.6.d.
3. Construction Permanent Mortgage Program Eligibility

Introduction
This topic contains information on the eligibility criteria for a loan to be considered a construction-permanent (CP) mortgage loan, including

- construction-permanent mortgage features
- timing of loan closing and insurance, and
- criteria for consideration as a construction-permanent mortgage loan.

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4155.1 6.A.3.a
Construction Permanent Mortgage Features
A construction permanent mortgage loan

- combines the features of
  - a construction loan, which is a short-term interim loan for financing the cost of construction, and
  - the traditional long-term permanent residential mortgage
- involves only one closing
- is considered a purchase transaction, for mortgage insurance and LTV purposes, and
- is made directly to an approved borrower by a lender.

4155.1 6.A.3.b
Timing of Loan Closing and Insurance
On a construction permanent mortgage loan, there is only one closing, which is prior to the start of construction. At the closing, funds are disbursed to cover the purchase of the land and/or the manufactured housing unit. The balance of the mortgage proceeds are placed in an escrow account to be disbursed through draw requests until construction is completed.

Note: For CP on a manufactured home, there is a mandatory holdback of not less than ten percent for all cost components, excluding land.

Important: The loan is not insured until after construction is completed.

Reference: For more information on CP loans for manufactured homes, see 4155.1 2.B.8.
3. Construction Permanent Mortgage Program Eligibility, Continued

The table below describes the criteria for a loan to be considered a construction-permanent loan and eligible for FHA mortgage insurance.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract with the Builder</td>
<td>The borrower has contracted with a builder to construct the improvements.</td>
</tr>
<tr>
<td></td>
<td><em>Note:</em> This program is <em>not</em> available to a borrower acting as his/her own general contractor, <em>unless</em> the borrower is a licensed builder by profession. In this case, the acquisition cost must be determined by the actual documented cost to construct the improvements.</td>
</tr>
<tr>
<td>Lot Ownership</td>
<td>The borrower must own or be purchasing the lot at the closing of the CP loan.</td>
</tr>
<tr>
<td></td>
<td><em>Note:</em> If the contractor owns the lot, the lot must be included in the total contract price.</td>
</tr>
<tr>
<td>Lot Acquisition</td>
<td>If the borrower purchased the lot within the past six months, he/she <em>must</em> provide a copy of the <a href="#">HUD-1 Settlement Statement</a> or other settlement statement showing the acquisition cost.</td>
</tr>
<tr>
<td></td>
<td>If the borrower owns the lot free-and-clear, the lender must document the date of ownership and omission or any liens from title work and settlement statements.</td>
</tr>
</tbody>
</table>

*Continued on next page*
### 3. Construction Permanent Mortgage Program Eligibility, Continued

4155.1 6.A.3.c Criteria for Consideration as a Construction Permanent Mortgage (continued)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verification of Loan Balance/Escrow Account</td>
<td>The balance on the CP loan, when it is fully drawn, must be verified.</td>
</tr>
<tr>
<td></td>
<td>The construction escrow account, if established, must be fully extinguished. Any remaining funds must be applied to the outstanding balance of the permanent loan.</td>
</tr>
<tr>
<td>Draw on Loan to Pay Off Lot</td>
<td>If the initial draw on the loan is for the purpose of paying off the lot, the borrower must provide a statement verifying the amount.</td>
</tr>
<tr>
<td>Sales Agreement</td>
<td>The borrower must provide a copy of the fully executed contract agreement, which includes the contractor’s price to build.</td>
</tr>
<tr>
<td>Extras/Out-of-Pocket Costs</td>
<td>If the borrower is including extras over and above the contract specification and/or is paying out-of-pocket expense over and above the interim loan, then for all out-of-pocket construction costs the borrower must provide</td>
</tr>
<tr>
<td></td>
<td>• a breakdown of the extras</td>
</tr>
<tr>
<td></td>
<td>• the cost of each</td>
</tr>
<tr>
<td></td>
<td>• canceled checks, and/or</td>
</tr>
<tr>
<td></td>
<td>• paid receipts.</td>
</tr>
</tbody>
</table>

Continued on next page
3. Construction Permanent Mortgage Program Eligibility, Continued

4155.1 6.A.3.c Criteria for Consideration as a Construction Permanent Mortgage (continued)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Back to Borrower</td>
<td>Replenishment of a borrower’s own cash invested during construction is not considered cash back, provided the borrower can substantiate all out-of-pocket expenses used for construction with cancelled checks and/or paid receipts.</td>
</tr>
</tbody>
</table>

Lenders must apply any excess funds from the construction proceeds to reduce the principal of the permanent loan. In general, the borrower is not to receive funds after closing. The borrower may receive up to $500 from any funds remaining after closing from unused prepaid expenses, which may include (but not limited to)

- per diem interest to the end of the month on the new loan  
- hazard insurance premium deposits  
- monthly mortgage insurance premiums, and  
- any real estate tax deposits needed to establish the escrow accounts.

**Note:** For manufactured homes that have been permanently erected on a site for less than one year prior to the date of the application for mortgage insurance, the borrower may not receive cash back at closing, even if the loan-to-value (LTV) is less than 85 percent.
4. Construction Permanent Mortgage Program Requirements

Introduction
This topic contains closing and post-closing information on the construction-permanent mortgage program, including:

- maximum mortgage amount
- equity in land as a borrower’s cash investment
- permanent loan interest rate
- timeframe for start of amortization
- disclosure to the borrower on eligibility for insurance
- draw on loan to pay off lot
- remitting UFMIP
- construction period fees
- disbursing funds
- request for endorsement, and
- warehouse lines-of-credit for construction-permanent loans on manufactured homes.

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Continued on next page
4. Construction Permanent Mortgage Program Requirements, Continued

4155.1 6.A.4.a Maximum Mortgage Amount

The maximum mortgage amount is determined by applying the LTV limits to the lesser of the appraised value or the acquisition cost.

The acquisition cost includes

• the builder’s price to build
• borrower-paid extras over and above the contract specification and/or out-of-pocket expenses over and above the interim loan
• cost of the land, and
• closing costs.

For extras over the contract specifications and out-of-pocket expenses, the borrower must provide

• a breakdown of the extras
• the cost of each
• canceled checks, and/or
• paid receipts.

If the land has been owned more than six months, or was received as an acceptable gift, the value of the land may be used instead of its cost.

Note: If the value of the land is lower than acquisition cost, the value must be used in calculating the maximum mortgage amount.

Important: If the contractor for the improvements is also the seller of the land, the total acquisition cost for maximum mortgage purposes is the borrower’s purchase price.

Continued on next page
4. Construction Permanent Mortgage Program Requirements, Continued

4155.1 6.A.4.b Equity in the Land as a Borrower’s Down Payment

Equity in the land may be used for the borrower’s down payment. However, if the advancement of the permanent loan results in the borrower receiving cash out in excess of $500, the maximum LTV is limited to 85 percent.

If the land has been owned more than six months, or was received as an acceptable gift, the value of the land may be used instead of its cost.

**Note:** If the value of the land is lower than acquisition cost, the value must be used in calculating the maximum mortgage amount.

**Important:** If the contractor for the improvements is also the seller of the land, the total acquisition cost for maximum mortgage purposes is the borrower’s purchase price.

4155.1 6.A.4.c Permanent Loan Interest Rate

The permanent mortgage loan interest rate is established at closing. However, a lender may offer a “ceiling/floor” where the borrower may “float” the interest rate during construction.

At the point of interest rate lock-in, the agreement between the lender and the borrower must provide that the permanent mortgage will not exceed a specific maximum interest rate, and that, depending on market fluctuations, the borrower will be allowed to lock-in a lower rate.

The borrower must qualify for the mortgage at the maximum rate at which the permanent mortgage may be set.

4155.1 6.A.4.d Timeframe for Start of Amortization

Amortization must begin no later than the first of the month, following 60 days from the date of

- final inspection, or
- issuance of certificate of occupancy, whichever is later.

*Continued on next page*
4. Construction Permanent Mortgage Program Requirements, Continued

4155.1 6.A.4.e Disclosure to the Borrower on Eligibility for Insurance

The lender must provide a disclosure to the borrower explaining

• that the loan is not eligible for FHA mortgage insurance until after
  – a final inspection, or
  – issuance of a certificate of occupancy by the local governmental
    jurisdiction, whichever is later, and
• that FHA has no obligation until the mortgage is endorsed for issuance.

4155.1 6.A.4.f Draw on Loan to Payoff Lot

If the initial draw on the loan was for the purpose of paying off the lot or land, the borrower must provide a statement verifying the payoff amount.

4155.1 6.A.4.g Remitting UFMIP

FHA must receive the UFMIP within 10 calendar days of closing, or other time period as may be prescribed by FHA.

4155.1 6.A.4.h Construction Period Fees

Unless a separate agreement is made specifying responsibility, the following costs are paid by the builder during construction:

• construction loan interest
• commitment fees
• inspection fees
• title update charges
• real estate taxes
• hazard insurance, and
• other financing charges incurred during the construction period.

4155.1 6.A.4.i Disbursing Funds

It is the lender’s responsibility on a construction permanent mortgage loan to obtain written approval from the borrower before each draw payment is provided to the builder.

Continued on next page
4. Construction Permanent Mortgage Program Requirements, Continued

4155.1 6.A.4.j
Request for Endorsement

The lender must submit a request for endorsement within 60 days of the final inspection or issuance of certificate of occupancy, whichever is later.

*Note:* During construction, the loan is not FHA-insured.

4155.1 6.A.4.k
Use of Warehouse Lines-of-Credit for Construction Permanent Loans on Manufactured Homes

Lenders may use warehouse lines-of-credit for manufactured homes when the construction, installation and/or alternative construction, from start to completion, can be accomplished in 30 to 60 calendar days. Lenders may also utilize alternative arrangements to fund both closing and construction period disbursements, such as

- non-traditional warehouse lines
- business lines-of-credit, or
- other available sources of interim capital.

Borrowers are not to be charged or otherwise held responsible for the costs associated with interim financing, unless they have executed a separate agreement acknowledging their responsibility for such costs. These costs may not result in an increase in the amount of the permanent loan and/or the monthly principal and interest payment at the time any modification to the note is made.
5. Construction Permanent Mortgage Documentation Requirements for Closing and Endorsement

Introduction
This topic contains information on the documentation requirements for closing and endorsing a construction permanent mortgage loan, including:

- documentation requirements for closing
- documentation required prior to endorsement
- making changes to the Note for the permanent loan, and
- application of gift funds when closing a construction permanent loan.

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October 26, 2009

4155.1 6.A.5.a Documentation Requirements for Closing

Standard FHA documents are used when closing a construction-permanent mortgage loan, with the addition of a

- Construction Rider or Allonge to the Note, and
- Construction Loan Agreement.

These construction documents may be in any form acceptable to the lender, but they must provide that all special construction terms end when the construction loan converts to a permanent loan.

The Construction Loan Agreement must outline
- the terms and conditions of the construction loan, and
- its conversion to a permanent loan.

After conversion, only the permanent loan terms continue to be effective, making the permanent loan eligible for FHA mortgage insurance.

Lenders must also provide an executed Loan Modification Agreement to confirm the existence of a permanent loan and that the corresponding amortizing interest rate on the mortgage loan shall commence or commenced within 60 days of the property being 100% complete.

Continued on next page
### 5. Construction Permanent Mortgage Documentation
#### Requirements for Closing and Endorsement, Continued

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
</table>
| 4155.1 6.A.5.b | Prior to endorsement, the lender must obtain
- a certification, signed by the borrower after conversion to the permanent loan, that the mortgaged property is free and clear of all liens other than the mortgage
- verification that the construction loan has been fully drawn down
- copies of canceled checks and paid receipts for all the borrower’s out-of-pocket construction costs, and
- all property-related requirements for new construction. |
| 4155.1 6.A.5.c | The lender must provide acceptable modification instruments that modify the note and security instrument (as applicable), if there are changes made to the Note, such as a
- reduction in the
  - monthly payment amount,
  - interest rate, or
  - principal balance resulting from the application of excess funds, or
- change in first payment date. |
| 4155.1 6.A.5.d | Gifts from eligible sources for down payment shall be applied to the permanent financing on the [HUD-1 Settlement Statement](#) at the time of closing, and not to interim financing for the borrower, in order to receive full benefit of the credit for the CP transaction. For a refinance transaction, the gift funds can only be applied once, to either the construction loan or the permanent loan.  

**Reference:** For additional information on gift funds, see [4155.1 5.B.4](#).
6. Mortgage Insurance for Disaster Victims

**Introduction**

This topic contains information on mortgage insurance for disaster victims, including

- description of the Section 203(h) program
- required borrower evidence of residence and destruction
- eligible properties
- amount of financing for eligible borrowers
- Section 203(h) maximum mortgage amounts
- timeframe for submission of loan application
- using Section 203(k) with 203(h) for rehabilitation mortgages
- Section 203(k) financing percentages
- Section 203(h) underwriting guidance, and
- Section 203(h) example scenarios and general underwriting guidance.

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**Change Date**

May 10, 2009

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**4155.1 6.A.6.a Description of the Section 203(h) Program**

Under the Section 203(h), *Mortgage Insurance for Disaster Victims* program, FHA provides mortgage insurance to assist victims of Presidentially-declared disasters. This program goes into effect when the President declares the disaster, and remains in effect for one year from the date of declaration.

The Federal Emergency Management Agency (FEMA) provides listings of the

- specific affected counties and cities, and
- corresponding disaster declaration dates.

*Note:* The FEMA information can be found at [http://www.fema.gov/disasters](http://www.fema.gov/disasters).

*Reference:* For more information on the Section 203(h) program, see [HUD 4155.2 1.C.3.](#)
6. Mortgage Insurance for Disaster Victims, Continued

Under Section 203(h), the borrower’s previous residence must have been in the disaster area and must have been destroyed or damaged to such an extent that reconstruction or replacement is necessary. Borrowers must provide conclusive evidence of this fact, as outlined in the table below.

*Note:* The borrower may have been the owner of the property or a renter of the property affected.

<table>
<thead>
<tr>
<th>Conclusive evidence of …</th>
<th>Includes …</th>
</tr>
</thead>
</table>
| a permanent residence in the affected area | • a valid driver’s license  
• a voter registration card, or  
• utility bills. |
| destruction of the residence | • an insurance report  
• an inspection report by an independent fee inspector or government agency, or  
• conclusive photographic evidence showing the destruction or damage. |

The following properties are eligible under the Section 203(h) program:

- one unit detached homes
- units in an approved condominium project, or
- “spot loan” in condominiums.

Two, three, and four unit properties *may not* be purchased under the program.

**Reference:** For more information on eligibility for the Section 203(h) program, see HUD 4155.2 1.C.3.
6. Mortgage Insurance for Disaster Victims, Continued

**4155.1 6.A.6.d Amount of Financing for Eligible Borrowers**

An eligible borrower may receive 100 percent financing of the sales price and no down payment is required. However, closing costs and prepaid expenses not paid by the seller must be

- paid by the borrower in cash, or
- paid through premium pricing.

*Note:* Adjustable Rate Mortgages (ARMs) may be used with the Section 203(h) program.

**4155.1 6.A.6.e Section 203(h) Maximum Mortgage Amounts**

Maximum mortgage amounts for the Section 203(h) program are the same as for the Section 203(b) program.

The list can be accessed

- from the lender’s Web page on HUD’s Web site at [www.hud.gov](http://www.hud.gov), or

*Reference:* For information on the Section 203(b) program and maximum mortgage amounts, see HUD 4155.2 1.C.2.

**4155.1 6.A.6.f Timeframe for Submission of Loan Application**

The borrower’s mortgage loan application must be submitted to the lender within one year of the President’s declaration of the disaster.

*Continued on next page*
6. Mortgage Insurance for Disaster Victims, Continued

4155.1 6.A.6.g Using Section 203(k) With 203(h) for Rehabilitation Mortgages

The requirement to complete a dwelling more than one year preceding the date of the mortgage insurance application under the Section 203(k), Rehabilitation Home Mortgage Insurance program, does not apply to properties in a disaster area.

Damaged residences are eligible for Section 203(k) mortgage insurance, regardless of the age of the property. The residence needs only to have been completed and ready for occupancy for eligibility under Section 203(k).

Homes that have been demolished, or will be razed as part of the rehabilitation work, are eligible, provided the existing foundation system is not affected, and will remain in place and be used. The complete foundation system must remain in place.

Reference: For more information on the Section 203(k) program, see HUD 4155.2 1.C.5.

4155.1 6.A.6.h Section 203(k) Financing Percentages

The type of mortgage being made determines the percentage of financing when using Section 203(k) with 203(h) for rehabilitation mortgages. In other words, normal LTV ratios apply to Section 203(k) mortgages made in disaster areas.

Continued on next page
Since many borrowers affected by a major disaster will experience difficulty in providing traditional documentation regarding employment and funds for closing due to the disaster, lenders should be as flexible as prudent decision making permits, when applying FHA’s underwriting criteria and documentation requirements.

To the extent possible, lenders should be accommodating towards borrowers

- eligible for Section 203(h) mortgages, whether or not they opt for another FHA program, such as 203(k), regarding gaps in
  - employment
  - documentation for employment
  - available funds, and
  - qualifying ratios, and
- when evaluating the following that were the direct result of a disaster, as reported into HUD’s Credit Alert Interactive Voice Response System (CAIVRS):
  - recent derogatory credit
  - bankruptcy
  - foreclosure
  - deed-in-lieu of foreclosure, and
  - delinquent federal obligations.

The guiding principle is to provide FHA financing to disaster victims who can make mortgage payments, but may not have all the traditional documentation as proof of ability to pay.
6. Mortgage Insurance for Disaster Victims, Continued

The table below contains
- example scenarios involving disaster victims, and
- guidelines for using alternative documentation when traditional documentation is unavailable.

*Note:* The guidelines below are meant to provide general guidance *only* and do not address *all* of the circumstances in which alternative documentation can be used. Each case is different, and ultimately needs to be evaluated on its own merits.

<table>
<thead>
<tr>
<th>Underwriting Category</th>
<th>Guideline</th>
</tr>
</thead>
</table>
| Credit                | Lenders should be able to determine if derogatory credit occurred subsequent to a disaster.  
If the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster can be related to the effects of the disaster, FHA will consider that the borrower is a satisfactory credit risk, for the underwriting standards. |
| CAIVRS                | FHA determines that a borrower is not eligible for FHA insurance if CAIVRS indicates the borrower is presently delinquent, or has had a claim paid within the previous three years on a loan made or insured by HUD on his/her behalf. FHA is adding, to the list of *exceptions* to this rule, situations involving Presidentially-declared disasters.  
If the borrower is reported in CAIVRS, but the credit report indicates the loan was current prior to the disaster, and any delinquency or claim paid can be related to the effects of the disaster, the borrower may be considered eligible.  
As with any CAIVRS authorization, lenders may contact the appropriate HOC for additional Section 203(h) underwriting information and guidance. |

*References:* For more information on  
- eligibility for Federally related credit, see [HUD 4155.1 4.A.6](#), and  
- the requirement to screen borrowers using CAIVRS, see [HUD 4155.1 4.A.8](#).

Continued on next page
6. Mortgage Insurance for Disaster Victims, Continued

4155.1 6.A.6 Section 203(h) Example Scenarios and General Underwriting Guidance (continued)

<table>
<thead>
<tr>
<th>Underwriting Category</th>
<th>Guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>Borrower's affected by a disaster may not be able to document past or present employment. If prior employment cannot be verified because records are destroyed, and he/she has a current position in the same or similar field, it may still be possible to consider the income. W-2s and tax returns may be obtained from the IRS to confirm prior employment and income. If this information cannot be obtained on a timely basis, the credit report may indicate the borrower’s prior employment. Lenders can consider short-term employment, due to the disaster. It is anticipated that lenders will make every effort to obtain documentation about prior employment, and FHA will be flexible on the documentation requirements. Note: Lenders should document the efforts taken to obtain traditional documentation.</td>
</tr>
</tbody>
</table>

| Qualifying Ratios     | When a borrower is purchasing a new home, yet still has an outstanding mortgage on a property located in a FEMA Disaster Area, the lender may exclude the mortgage payment on the previous residence from the qualifying ratio calculation, if the borrower provides the lender with information indicating that he/she is working with the servicing lender to appropriately address his/her mortgage obligation, and any property insurance proceeds will be applied to the mortgage on the damaged home. |

| Assets                | Lenders should encourage a borrower to access his/her financial institution’s Web sites to attempt to download statements confirming assets needed to close the loan, if hard copy bank records are unavailable. Lenders should document the efforts to verify assets, and make every effort to ensure that the borrower will have funds to complete the transaction. |

Continued on next page
6. Mortgage Insurance for Disaster Victims, Continued

4155.1 6.A.6 Section 203(h) Example Scenarios and General Underwriting Guidance (continued)

<table>
<thead>
<tr>
<th>Underwriting Category</th>
<th>Guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td>When a borrower has a continued mortgage obligation on a prior loan securing a property that has been destroyed or damaged, FHA understands that the record may show late payments as a result of a disaster.</td>
</tr>
</tbody>
</table>

Lenders should not consider the outstanding mortgage obligation on destroyed, or seriously damaged properties when determining a borrower’s ability to make payments on a new loan, provided the requirements under Qualifying Ratios in this table have been met.

FHA takes the position that insurance settlements are likely to pay-off remaining obligations.

However, if a borrower was three or more months delinquent on his/her loan prior to the disaster, and the property is destroyed, it would not be prudent for a lender to make a new loan unless he/she can show and document extenuating circumstances.
### 7. Energy Efficient Homes

**Introduction**

This topic contains information on energy efficient homes (EEH), including

- EEH qualifying ratios
- EEH eligible properties
- EEH general underwriting policy
- EEH general underwriting procedures
- EEH underwriting procedures for new construction mortgages, and
- EEH policy guidance for streamline refinances.

**Change Date**

May 10, 2009

<table>
<thead>
<tr>
<th>4155.1 6.A.7.a</th>
<th>EEH Qualifying Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>For a mortgage loan involving an energy efficient home (EEH), the two benchmark qualifying ratios may be exceeded by up to 2 percentage points when the borrower is purchasing or refinancing an EEH.</td>
<td></td>
</tr>
<tr>
<td>These higher housing expense- and obligations-to-income ratios are justified due to the anticipated energy costs savings, and become 33 percent and 45 percent, respectively.</td>
<td></td>
</tr>
</tbody>
</table>

**Reference**: For more information on borrower qualifying ratios, see [HUD 4155.1 4.F](#).

<table>
<thead>
<tr>
<th>4155.1 6.A.7.b</th>
<th>Eligible EEH Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>All properties meeting the 2000 International Energy Conservation Code (IECC), formerly known as the Model Energy code (MEC) are considered</td>
<td></td>
</tr>
<tr>
<td>- energy efficient, and</td>
<td></td>
</tr>
<tr>
<td>- eligible for the 2 percentage points increase in the EEH qualifying ratios.</td>
<td></td>
</tr>
</tbody>
</table>

**Note**: Both new and existing one- to four-unit properties are eligible, including one-unit condominiums and manufactured housing.

*Continued on next page*
An EEH mortgage is initially underwritten as if the energy package did not exist, that is, by using standard FHA underwriting standards, qualifying income ratios, and maximum mortgage/minimum down payment requirements without regard to the energy package.

For an EEH mortgage on new construction, as well as those homes that were built to the 2000 IECC, or are being retrofitted to that standard, the borrower can obtain “stretch ratios” of 33 percent and 45 percent, in addition to the cost of the improvements.

Once it is determined that both the borrower and the property qualify for an FHA-insured mortgage, the lender must determine the dollar amount of the cost-effective energy package that may be added to the loan amount, using the energy rating report and EEM worksheet.

This dollar amount cannot exceed 5 percent (not to exceed $8,000) of the property’s value, or $4,000, whichever is greater. Regardless of the property’s value, every borrower who otherwise qualifies can finance at least $4,000 of the costs of the Energy Package, if the cost exceeds $4,000.

The calculated amount must be added to the approved base loan amount to total the final FHA-insured loan amount, before adding any upfront mortgage insurance premium (UFMIP).

The FHA maximum loan limit for the area may be exceeded by the cost of the energy efficient improvements.

When qualifying the borrower, the cost of the energy package must be subtracted from the sales price, since the builder has included the improvements in the sales price.

Calculate the qualifying ratios on the lower amount.
The borrower’s principal and interest (P&I) payment on the new loan including the energy package, may be greater than the P&I payment on the current loan, provided that the estimated monthly energy savings as shown on the Home Energy Rating Systems (HERS) report exceeds the increase in the P&I.
8. Restriction on Advanced Mortgage Payments

<table>
<thead>
<tr>
<th>Change Date</th>
<th>May 10, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>4155.1 6.A.8.a</td>
<td>FHA does not permit a lender to collect from the borrower advance payment(s) of the mortgage, as a condition for making a FHA-insured mortgage.</td>
</tr>
<tr>
<td>Advanced Mortgage Payment Requirements</td>
<td>Lenders are <em>not</em> permitted to require a borrower to make mortgage payments to the lender in advance of the borrower’s mortgage payment requirements under the security instruments, either through the use of</td>
</tr>
<tr>
<td></td>
<td>• post-dated checks</td>
</tr>
<tr>
<td></td>
<td>• cash, or</td>
</tr>
<tr>
<td></td>
<td>• any other form of payment.</td>
</tr>
</tbody>
</table>
9. Condominium Units Utility Expenses

Change Date

May 10, 2009

4155.1 6.A.9.a
Condominium Utility Expenses

The portion of a condominium fee that is clearly attributable to utilities may be subtracted from the Homeowners Association (HOA) dues, before computing ratios, provided the borrower provides proper documentation, such as documentation from the utility company.
10. HUD Real Estate Owned (REO) Acquisitions

Change Date: July 6, 2009

4155.1 6.A.10.a Calculating Loans on HUD REO Sales With Repair Escrow

On a HUD Real Estate Owned (REO) property that requires no more than $5,000 for repairs to meet FHA’s property requirements, 110 percent of the estimated cost of the repairs may be included in the mortgage amount.

Reference: For more information on adding required repair costs on HUD REO properties, see ML 2000-27.
Section B. ARMS

Overview

In This Section

This section contains the topics listed in the table below.

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<tr>
<th>Topic</th>
<th>Topic Name</th>
<th>See Page</th>
</tr>
</thead>
<tbody>
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<td>6-B-2</td>
</tr>
<tr>
<td>2</td>
<td>General Information on ARMs</td>
<td>6-B-3</td>
</tr>
<tr>
<td>3</td>
<td>ARM Underwriting Requirements</td>
<td>6-B-5</td>
</tr>
<tr>
<td>4</td>
<td>Interest Rate Index</td>
<td>6-B-9</td>
</tr>
<tr>
<td>5</td>
<td>Calculating Interest Rate Adjustments</td>
<td>6-B-13</td>
</tr>
<tr>
<td>6</td>
<td>Computing Monthly Installment Payments</td>
<td>6-B-18</td>
</tr>
<tr>
<td>7</td>
<td>Annual Adjustment Notice Requirement</td>
<td>6-B-20</td>
</tr>
<tr>
<td>8</td>
<td>Failure to Provide a Timely/Accurate Annual Adjustment Notice</td>
<td>6-B-23</td>
</tr>
<tr>
<td>9</td>
<td>ARM Assumptions and Transfers of Servicing</td>
<td>6-B-25</td>
</tr>
<tr>
<td>10</td>
<td>Tracking ARMs</td>
<td>6-B-27</td>
</tr>
</tbody>
</table>
1. Terms and Definitions

Change Date

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See HUD 4155.1 9 for definitions of the following ARM-related terms:

• adjusted interest rate
• calculated interest rate
• change date
• current index
• existing interest rate
• initial interest rate
• index, and
• margin.
2. General Information on ARMs

Introduction

This topic contains general information on ARMs, including

- ARM interest rate adjustments and caps
- hybrid ARM eligibility, and
- the maximum number of ARM units insured by FHA.

Change Date

May 10, 2009

4155.1 6.B.2.a

ARM Interest Rate Adjustments and Caps

The table below describes the annual interest rate adjustment and interest rate cap over the life of the five types of ARM loans.

Reference: For information on the frequency of interest rate changes, see HUD 4155.1 6.B.4.e.

<table>
<thead>
<tr>
<th>When the ARM is for ...</th>
<th>Then the annual interest rate adjustment, after the initial fixed interest rate period, is ...</th>
<th>And the interest rate cap over the life of the loan is ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>• one-year</td>
<td>one percentage point</td>
<td>five percentage points.</td>
</tr>
<tr>
<td>• three years, or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• five years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• five years</td>
<td>two percentage point</td>
<td>six percentage points.</td>
</tr>
<tr>
<td>• seven years, or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• ten years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: FHA added the two options for the five year ARM in order to meet the needs of homebuyers, lenders and the secondary mortgage market.

Continued on next page
## 2. General Information on ARMs, Continued

### 4155.1 6.B.2.b

**Hybrid ARM Eligibility**

Owner-occupied principal residences being insured under the following programs are eligible for hybrid ARMs:

- Section 203(b), *Home Mortgage Insurance Program*
- Section 203(h), *Home Mortgage Insurance for Disaster Victims Program*
- 203(k), *Rehabilitation Home Mortgage Insurance Program*, and
- 234(c), *Mortgage Insurance for Condominium Units*.

Nonprofits, including organizations normally eligible as borrowers, and government agencies are not permitted to apply for the hybrid ARM products.

**References**: For information on Section 203 mortgage insurance programs, see

- [HUD 4155.1 6.A.6](#), and
- [HUD 4155.2 1.C](#).

### 4155.1 6.B.2.c

**Maximum Number of ARM Units**

The aggregate number of all ARMs insured by FHA in any fiscal year may not exceed 30 percent of the aggregate number of mortgages insured during the preceding fiscal year.

FHA will notify lenders when the maximum percentage is close to being reached during any fiscal year.
3. ARM Underwriting Requirements

Introduction

This topic contains information on underwriting ARMs, including:

- ARM processing and underwriting requirements
- ARM pre-loan disclosure
- basis for annual MIP
- interest rate information
- borrower qualifying on the 1-year ARM
- borrower qualifying on the 3, 5, 7, or 10 year ARM
- temporary interest rate buydown
- ARM maturity
- ARMs not applicable to HECMs
- model ARM and note, and
- amortization provisions.

Change Date

May 10, 2009

ARM Processing and Underwriting Requirement

ARM loans must be processed and underwritten using the initial interest rate negotiated between the lender and borrower as stated on Form HUD 92900-A, Addendum to Uniform Residential Loan Application.

Mortgage credit processing must be in accordance with existing FHA instructions, except as modified subsequently in this topic.

Continued on next page
At the time of the loan application, the lender must provide the borrower with a written explanation of the

• nature of the proposed obligation, and
• features of an ARM, consistent with the disclosure requirements applicable to variable-rate mortgages secured by a principal dwelling under the Truth-in-Lending Act (TILA), “Regulation Z” at
  – 15 United States Code (USC) 1601, and

Additionally, the lender must provide the borrower with a hypothetical monthly payment schedule that displays the maximum potential increases in monthly payments for the term of the ARM. The hypothetical payment schedule should illustrate the maximum increases over the shortest possible time frame.

Example: A seven year ARM payment schedule would show the maximum potential increases over the three years following the initial fixed interest rate period of seven years.

Notes:
• FHA relies on lenders to comply with TILA, and does not provide disclosures for the ARM products.
• The ARM disclosure statement, signed by all borrowers, must accompany the loan application, and applicable FHA addenda.

The mortgage insurance premium (MIP) amount and any termination provisions must be based on the initial interest rate throughout the term of the loan, regardless of the annual interest rate adjustments to the loan.

Continued on next page
3. ARM Underwriting Requirements, Continued

4155.1 6.B.3.d  
**Interest Rate Information**

The following rate information must be specified on the mortgage documents:

- initial interest rate
- margin
- date of the first adjustment to the interest rate, and
- frequency of adjustments.

4155.1 6.B.3.e  
**Borrower Qualifying on the 1 Year ARM**

Borrowers choosing the 1 year ARM must qualify for payments based on the contract or initial rate plus one percentage point. This only applies to the 1 year ARM where the loan-to-value (LTV) is 95 percent or greater.

For this purpose, the LTV is defined as the *lesser* of

- the base loan amount divided by the appraiser’s estimate of value, or
- the percentage shown on the “LTV” line under the *Qualifying Ratios* section on the HUD-92900-LT.

4155.1 6.B.3.f  
**Borrower Qualifying on the 3, 5, 7, or 10 Year ARM**

Borrower’s choosing the three, five, seven, or ten year ARMs should be qualified at the entry level or Note rate. These ARMs do not require underwriting at the one percentage point above the Note.

4155.1 6.B.3.g  
**Temporary Interest Rate Buydowns**

Any form of temporary interest rate buydown is prohibited for all ARMs, regardless of LTV.

If there is a permanent buydown, underwriting must be based on the rate in the application.

*Continued on next page*
3. ARM Underwriting Requirements, Continued

4155.1 6.B.3.h ARM Loan Maturity

ARM loan maturities shall not exceed 30 years.

4155.1 6.B.3.i Model ARM and Note

Mortgage lenders must modify the model ARM Note form found in HUD 4155.2 12.A.3 to accommodate the type of ARM being offered, including the

- Change Date
- limits on the interest rate changes associated with the initial fixed rate period of the ARM, and
- lifetime caps.

Reference: For information on the model ARM and note, see HUD 4155.2 6.B.


The ARM must

- be fully-amortizing, and
- contain amortization provisions that allow for periodic adjustments in the rate of interest charged.
4. Interest Rate Index

Introduction

This topic contains information on the ARM interest rate index, including

- the two acceptable index types
- interest rate changes
- establishing the adjusted interest rate
- regulation on setting interest rates, and
- frequency of interest rate changes.

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4155.1 6.B.4.a
Two Acceptable Index Types

FHA will insure forward adjustable rate mortgage loan products using either

- the 1 Year London Interbank Offered Rate (LIBOR), or
- the 1 Year Constant Maturity Treasury (CMT) index.

Note: The two index types cannot be commingled.

<table>
<thead>
<tr>
<th>Eligible Index Types</th>
<th>LIBOR</th>
<th>CMT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward ARMs</td>
<td>1 Year</td>
<td>1 Year</td>
</tr>
<tr>
<td>1, 3, 5, 7, 10 Year</td>
<td>LIBOR</td>
<td>CMT</td>
</tr>
</tbody>
</table>

Continued on next page
4. Interest Rate Index, Continued

4155.1 6.B.4.b  Interest Rate Changes

Changes in the interest rate charged on an ARM must correspond to changes in either the

- weekly average yield on United States (U.S.) Treasury securities adjusted to a constant maturity of one year, or equivalent, as
  – provided by the Department of the Treasury, and
- LIBOR index as published in the Wall Street Journal.

Each change in the mortgage interest rate, except as otherwise provided in this handbook, must correspond to the upward/downward changes in one of these indices.

Notes:
- The Federal Reserve Statistical Release is published weekly on Monday or on Tuesday if Monday is a Federal holiday.
- The Wall Street Journal is published on the first business day of each week, which is typically a Monday, (or Tuesday if Monday is a non-publishing day). Should the Federal Reserve begin publishing the LIBOR indices in H.15, then lenders must use the H.15 as the source for these LIBOR rates. The LIBOR indices are effective the day they are published, until the day they are published the following week. The published LIBOR index must be rounded to three digits to the right of the decimal point.
4. Interest Rate Index, Continued

When establishing the adjusted interest rate, the lender must compare the initial contract interest rate to the sum of the current index figure and the mortgage margin (calculated interest rate).

The adjusted interest rate will be the interest rate charged to the borrower, subject to the limitations of the annual and lifetime caps for the respective ARM type.

The current index figure must be the most recent index figure available 30 calendar days before the Change Date (effective date of an adjustment to the interest rate as shown in Paragraph 5(a) of the model adjusted rate note form.)

*Note:* Existing model notes and security instruments currently reflect only the 1 Year CMT Index. Therefore, when LIBOR rates are chosen, the adjustable rate notes and other related documents must reflect the applicable LIBOR index.

Section 203.49 (c) of the regulations provides a method for setting the new interest rate as an alternative to using the margin to set the new rate.

Section 203.49 (c) states that “to set the new interest rate, the lender will

• determine the change between the initial or base index figure, and the current index figure, or
• add a specified margin to the current index figure.”

Ginnie Mae will *only* purchase ARMs that use the margin method for establishing the new interest rate. HUD requests that the lender contact the FHA Single Family Program Development Office for guidance, if he/she wishes to use the other method for establishing the new interest rate.
4. Interest Rate Index, Continued

Interest rate adjustments must occur on an annual basis.

The table below describes exceptions for the first adjustment rate changes.

<table>
<thead>
<tr>
<th>If the ARM is for ...</th>
<th>Then the first adjustment rate change may occur no sooner than ...</th>
<th>And no later than ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>one year</td>
<td>12 months</td>
<td>18 months.</td>
</tr>
<tr>
<td>three years</td>
<td>36 months</td>
<td>42 months.</td>
</tr>
<tr>
<td>five years</td>
<td>60 months</td>
<td>66 months.</td>
</tr>
<tr>
<td>seven years</td>
<td>84 months</td>
<td>90 months.</td>
</tr>
<tr>
<td>10 years</td>
<td>120 months</td>
<td>126 months.</td>
</tr>
</tbody>
</table>
5. Calculating Interest Rate Adjustments

Introduction
This topic contains information on how to calculate interest rate adjustments, including

- calculating annual adjustments
- current basis for the index
- determining the current index figures
- determining the calculated interest rate
- determining the new adjusted interest rate
- interest rate adjustments over the term of the mortgage, and
- effective date for the adjusted interest rate.

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May 10, 2009

4155.1 6.B.5.a
Calculating Annual Adjustments
The lender and borrower negotiate the initial interest rate and margin. The margin must be constant for the entire term of the mortgage. The interest rate remains constant for the initial period (either a 1, 3, 5, 7, or 10 year period, depending on the ARM) and then may change annually for the remainder of the loan term.

To calculate the annual adjustments to the initial interest rate

- determine the current index (CMT or LIBOR)
- determine the calculated interest rate, and
- compare the calculated interest rate to the existing interest rate to determine the new adjusted interest rate subject to the annual and lifetime caps.

Note: Once the new adjusted interest rate is calculated, notice of the change must be provided to the borrower.

References: For information on
- determining the current index, see HUD 4155.1 6.B.5.c
- determining the calculated interest rate, see HUD 4155.1 6.B.5.d
- comparing the calculated interest rate to the existing interest rate to determine the new adjusted interest rate, see HUD 4155.1 6.B.5.e, and
- providing notice to the borrower of the interest rate change, see HUD 4155.1 6.B.7.

Continued on next page
5. Calculating Interest Rate Adjustments, Continued

4155.1 6.B.5.b
Basis for the Index

The index used is based on either the

- weekly LIBOR rate, or
- weekly average yield on U.S. Treasury securities, adjusted to a constant maturity of one year.

The index used must be

- the one effective on the date 30 calendar days before the Change Date, and
- either the
  - CMT, shown on the Federal Reserve Board Statistical Release H.15 (effective the day it is issued, until a new H.15 index is published), or
  - LIBOR, shown in the Wall Street Journal (effective the day it is issued, until a new weekly Wall Street Journal is published).

4155.1 6.B.5.c
Determining the Current Index Figures

The table below describes the current index figure to use based upon the particular day of the week on which the 30th calendar day falls.

<table>
<thead>
<tr>
<th>When the 30th calendar day falls on a ...</th>
<th>Then use the index figure in the H.15 release (or Wall Street Journal if using the LIBOR) issued ...</th>
<th>If ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday that is a business day</td>
<td>that Monday</td>
<td>the 30th calendar day prior to a Change Date and the issue date of an H.15 release both occur on the same day (that is, they both occur on a Monday).</td>
</tr>
<tr>
<td>Monday that is a Federal holiday</td>
<td>the prior week</td>
<td>The 30th calendar day before the Change Date falls on a Monday that is a Federal holiday.</td>
</tr>
</tbody>
</table>

Continued on next page
5. Calculating Interest Rate Adjustments, Continued

4155.1 6.B.5.c Determining the Current Index Figures (continued)

<table>
<thead>
<tr>
<th>When the 30th calendar day falls on a ...</th>
<th>Then use the index figure in the H.15 release (or Wall Street Journal if using the LIBOR) issued ...</th>
<th>If ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>day of the week other than Monday</td>
<td>on the Monday of that week (or issued on Tuesday if that Monday is a Federal holiday.)</td>
<td>---</td>
</tr>
</tbody>
</table>

Example: Assuming a December 1, 2005 Change Date, the 30 calendar days before December 1 is Tuesday November 1. Use the correct index figure issued on Monday October 31.

4155.1 6.B.5.d Determining the Calculated Interest Rate

The calculated interest rate is the current index, plus the margin (the number of basis points identified as “margin” in Paragraph 5(C) of the model adjustable rate note), rounded to the nearest 1/8th of one percentage point (0.125 percent).

This complies with Ginnie Mae’s requirement that mortgages placed into Ginnie Mae pools must be rounded to the nearest 1/8th of one percentage point at each Change Date.

Continued on next page
5. Calculating Interest Rate Adjustments, Continued

Compare the calculated interest rate to the existing interest rate in effect for the preceding 12 months, to determine the new adjusted interest rate.

The table below provides instructions on determining the new adjusted interest rate, based upon the results of the comparison between

- the calculated interest rate, and
- the existing interest rate.

<table>
<thead>
<tr>
<th>If the calculated interest rate is ...</th>
<th>Then the new adjusted rate will be ...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>equal</strong> to the existing interest rate</td>
<td>the same as the existing interest rate.</td>
</tr>
</tbody>
</table>
| **less** than the existing interest rate | • the calculated interest rate, for one-three- and five-year ARMs if the calculated interest rate is *less* than *one* percentage point higher or lower than the existing interest rate, and  
• the calculated interest rate for five, seven- and ten-year ARMs if the calculated interest rate is *less* than *two* percentage points higher or lower than the existing interest rate. |
| **more** than the existing interest rate | • limited to one percentage point higher or lower than the existing interest rate for one, three, and five year ARMs, *if* the new calculated interest rate is more than one percentage point (100 basis points) higher or lower than the existing interest rate. (*Note:* Index changes in excess of one percentage point may not be carried over for inclusion in an adjustment in a subsequent year.), and  
• the calculated interest rate for five, seven and ten year ARMs, *if* the calculated interest rate is more than two percentage points (200 basis points) higher or lower than the existing interest rate. (*Note:* Index changes in excess of two percentage points may not be carried over for inclusion in an adjustment in a subsequent year.) |

Continued on next page
5. Calculating Interest Rate Adjustments, Continued

Adjustments to the interest rate over the entire term of the mortgage may not result in a change in either direction of more than

- five percentage points (500 basis points) from the initial contract interest rate for one, three, and five year ARMS, or
- six percentage points (600 basis points) for five, seven and ten year ARMs.

An adjusted interest rate is effective on the Change Date, and thereafter is deemed to be the existing interest rate. The new rate remains in effect until the next Change Date.

During the term of the mortgage, each adjustment is effective on the same date of each succeeding year.
6. Computing the Monthly Installment Payment

Introduction
This topic contains information on how to compute the monthly installment payment, including

- determining the new monthly payments, and
- the timing of the new monthly payment.

Change Date
May 10, 2009

4155.1 6.B.6.a Determining New Monthly Payments
Interest rate changes may only be implemented through adjustments to the borrower’s monthly payments. Lenders must determine a new monthly payment each time there is a new interest rate on the mortgage due to the interest rate adjustment calculation described in HUD 4155.1 6.B.5.

The portion of the monthly payment, attributable to principal and interest, is calculated by

- determining the amount necessary to fully amortize the unpaid principal balance for the remaining term of the mortgage
- crediting all eligible prepayments, but not debiting any delinquency, and
- adding escrow requirements to the principal and interest.

Notes:
- Unpaid principal balance for computing the monthly installment is the balance that would be due on the Change Date if there had been no default in any payment, but reduced by the amount of any prepayments to the principal.
- All ARM adjustments affect interest percentages only. Negative amortization is not permitted.

Continued on next page
Since interest is payable on the first day of the month following the month in which the interest accrued, the borrower will begin to pay the new monthly payment 30 days after the Change Date, provided the lender gives the borrower proper notice.

Reference: For information on the requirement for an Annual Adjustment Notice to the borrower, see HUD 4155.1 6.B.7.
7. Annual Adjustment Notice Requirement

Introduction

This topic contains information on the Annual Adjustment Notice, including

- Annual Adjustment Notice policy
- required Notice content
- sending the Adjustment Notice
- effect of foreclosures and delinquencies on lender notification obligation
- Annual Adjustment Notice record retention, and
- lender responsibility for follow-up after sending the Notice

Change Date

May 10, 2009

4155.1 6.B.6.a Annual Adjustment Notice Policy

At least 25 days before any adjustment to a borrower’s monthly payment may occur, the lender must provide written notification to the borrower regarding

- the new mortgage interest rate
- the amount of the new monthly payment
- the current index, and
- how the payment adjustment was calculated.

Prior to issuance of the notice, the lender must calculate the new adjusted interest rate, as instructed in HUD 4155.1 6.B.5.

The first adjustment to the interest rate becomes effective on the date specified in Paragraph 5A (Change Date) of the ARM Note and thereafter, each adjustment becomes effective on the same date of each succeeding year during the term of the mortgage.

Note: Lenders must notify borrowers

- 30 days before any adjustments, if this provision is stated in the mortgage agreement, and
- annually, even if the existing interest rate does not change.

Continued on next page
7. Annual Adjustment Notice Requirement, Continued

The content of the Adjustment Notice must meet the criteria of 24 CFR 203.49(h), Eligibility of Adjustable Rate Mortgages, and include:

- date the Adjustment Notice is mailed
- change date
- existing interest rate
- adjusted interest rate
- current Index and publishing date
- method of calculating the adjustment to monthly payments
- amount of the adjusted monthly payments, and
- any other information that may be required by law, such as an explanation of why the adjusted interest rate is less than the calculated interest rate when the cap is reached.

Send the Adjustment Notice to the borrower by Certified Mail, Return Receipt Requested.

The lender can also send the Notice by first class mail to all property owners identified on his/her records, unless the borrower’s whereabouts are known to be elsewhere.

The lender’s obligation to compute and adjust the interest rate, and provide notice to the borrower, is not affected by delinquencies or foreclosures, so long as the mortgage debt exists.

It is the lender’s responsibility to see that its collection actions continually update the mortgage debt.
7. Annual Adjustment Notice Requirement, Continued

4155.1 6.B.6.e
Annual Adjustment Notice Record Retention

The HUD review purposes, lenders must

• keep evidence that timely notice was sent to the borrower, and
• retain annual adjustment computations for the mortgage term.

A file copy of the suggested HUD Annual Adjustment Notice is sufficient to satisfy this requirement.

Should disputes arise, the HUD suggested method for evidence may not be sufficient. Lenders should instead be guided by the advice of counsel about the type and duration of record retention.

4155.1 6.B.6.f
Lender Responsibility for Follow Up After Sending the Notice

The Lender should notify his/her collections personnel of the possibility that the Annual Adjustment Notice was not received by a borrower, and of the need to take remedial action, when necessary. Collection personnel should

• make a follow up call to determine if the notice was received, if the borrower’s payments do not reflect the increase/decrease described in the Notice, and
• immediately mail a duplicate Notice if not received.
8. Failure to Provide a Timely/Accurate Annual Adjustment Notice

Introduction
This topic contains information on failure to provide a timely or accurate Annual Adjustment Notice, including

- Notice failure for more than one year
- restriction on collecting payment increases
- decline of new interest rate, and
- inaccurate Annual Adjustment Notice.

Change Date
May 10, 2009

4155.1 6.B.8.a Notice Failure for More Than One Year
If the lender fails to provide notice to the borrower for more than one year, then he/she must determine an adjusted interest rate for each omitted year, because the calculations for each year affect the rate for subsequent years.

The one and two percentage point limitations and five and six percentage point caps apply to each year, and must be considered when determining the new interest rate.

Penalties will be imposed on the lender if he/she fails to provide borrower notification in advance of each Change Date.

4155.1 6.B.8.b Restriction on Collecting Payment Increases
Although the new interest rate may increase, the lender is prevented from collecting any increase in payments until the Notice has met the required 25-day advance notice requirement.

If timely notice is not provided, the

- lender forfeits his/her right to collect the increased amount, and
- borrower is relieved from the obligation to pay the increased payment amount.

Continued on next page
8. Failure to Provide a Timely/Accurate Annual Adjustment Notice, Continued

4155.1 6.B.8.c Decline of New Interest Rate

If the new interest rate declines, the failure of the lender to provide proper Notice would result in overpayments, until the mortgage rate is properly adjusted.

In this case, the lender must refund the excess, with interest, at a rate equal to the sum of the Margin and Index in effect on the Change Date, from the date of the excess payment to the date of repayment.

After the lender applies the refund to any existing delinquency, the borrower has the option of

- a cash refund, or
- applying the excess to the unpaid principal balance or the mortgage.

4155.1 6.B.8.d Inaccurate Annual Adjustment Notice

HUD requires that errors be corrected if the

- lender miscalculates the interest rate and/or the monthly payment, and
- the errors are reflected in the Notice.

HUD does not take a position on whether an erroneous Notice constitutes a failure to provide notice under the terms of the mortgage contract. This is a legal matter that is subject to local law and court interpretation.
9. ARM Assumptions and Transfers of Servicing

**Introduction**

This topic contains information on ARM assumptions and transfers of servicing, including

- transfers of servicing among lenders
- disclosing sales transaction terms, and
- creditworthiness review.

**Change Date**

May 10, 2009

**4155.1 6.B.9.a Transfers of Servicing Among Lenders**

The seller is responsible for providing the transferee with complete servicing records reflecting total compliance with ARM disclosure and reporting requirements.

HUD regulations require that the transferee/assignee assume all servicing obligations. However, negligent ARM lenders/transferors are not permitted to avoid his/her disclosure obligations.

If a failure of Notice or other error is discovered, the lender/transferor holding the loan when the failure occurred, is responsible for reimbursing the lender currently holding the loan, if any burden or refund to the borrower is required.

*Continued on next page*
9. ARM Assumptions and Transfers of Servicing, Continued

4155.1 6.B.9.b Disclosing Sales Transaction Terms

Lenders should encourage sellers to disclose the terms of an existing ARM in any sales transaction. However, when an assumption takes place, both the seller and lender should assume responsibility for notifying the assumptor about the terms and conditions of the ARM.

When the lender becomes aware of an assumption, and has the name of the assumptor, he/she should provide the assumptor with

- a copy of the original Disclosure Statement, and
- an explanatory letter addressing the ARM obligations.

The lender should document an acknowledgement of the assumptor’s receipt of the disclosure information.

4155.1 6.B.9.c Creditworthy Review

The lender must prepare a new Disclosure Statement to ensure that the assumptor is aware of the ARM obligation, when the assumption transaction

- requires a creditworthiness review, or
- release from personal liability is requested and approved.

Processing of the following HUD forms must be based on the interest rate in effect at the time that the complete credit review package is submitted to the DE Underwriter:

- Form HUD 92210, Request for Credit Approval of Substitute Mortgagor, and/or
- Form HUD 92210.1, Approval of Purchaser and Release of Seller.
10. Tracking ARMs

**Introduction**

This topic contains information on tracking ARMs, including

- ARM suffix codes
- DE suffix codes, and
- ARM-type indicators.

**Change Date**

May 10, 2009

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**4155.1 6.B.10.a**

**ARM Suffix Codes**

In order to track ARM activity, case number suffix codes (Section of the Act Automatic Data Processing (ADP) Codes) are

- indicated on all Form HUD-92900 application addendums, and
- printed on Form HUD-59100, Mortgage Insurance Certificate.

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**4155.1 6.B.10.b**

**DE Suffix Codes**

The table below lists the suffix codes for DE cases.

<table>
<thead>
<tr>
<th>Eligible Program</th>
<th>Section of the Act Suffix Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>203(b)</td>
<td>729</td>
</tr>
<tr>
<td>223(e)</td>
<td>829</td>
</tr>
<tr>
<td>203(k) first lien</td>
<td>730</td>
</tr>
<tr>
<td>234(c)</td>
<td>731</td>
</tr>
<tr>
<td>247 Hawaiian Homelands</td>
<td>780</td>
</tr>
<tr>
<td>248 Indian Lands</td>
<td>788</td>
</tr>
<tr>
<td>203(k) Condominium</td>
<td>815</td>
</tr>
</tbody>
</table>

*Continued on next page*
10. Tracking ARMs, Continued

In addition to the ADP suffix codes assigned to ARMs, a hybrid ARM-type indicator has been added to the FHA’s Computerized Home Underwriting Management System (CHUMS).

When submitting loan data to FHA via the FHA Connection, or its functional equivalent, the lender must identify the type of ARM, if the ARM is indicated by an ADP code, by selecting the one, three, five, seven, or ten year ARM-type indicator.
# Section C. Streamline Refinances

## Overview

This section contains the topics listed in the table below.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Topic Name</th>
<th>See Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Requirements for Streamline Refinances</td>
<td>6-C-2</td>
</tr>
<tr>
<td>2</td>
<td>Credit Qualifying Streamline Refinances</td>
<td>6-C-6</td>
</tr>
<tr>
<td>3</td>
<td>Streamline Refinance Borrower and Property Related Requirements</td>
<td>6-C-8</td>
</tr>
<tr>
<td>4</td>
<td>Types of Permissible Streamline Refinances</td>
<td>6-C-11</td>
</tr>
<tr>
<td>5</td>
<td>Establishing Net Tangible Benefit of Streamline Refinance</td>
<td>6-C-16</td>
</tr>
</tbody>
</table>
1. Requirements for Streamline Refinances

Introduction

This topic contains information on requirements for streamline refinances, including

- a description of a streamline refinance
- permissible geographic areas
- use of appraisals
- ignoring or setting aside an appraisal
- reviewing HUD LDP and GSA exclusion lists
- credit report requirements and availability of credit score
- underwriting requirements, use of TOTAL Scorecard and loan application documentation, and
- certification requirement for streamline refinance and required case binder documentation.

Change Date

December 8, 2009

4155.1 6.C.1.a

Description of a Streamline Refinance

Streamline refinances

- are designed to lower the monthly principal and interest payments on a current FHA-insured mortgage, and
- must involve no cash back to the borrower, except for minor adjustments at closing that are not to exceed $500.

4155.1 6.C.1.b

Permissible Geographic Areas for Streamline Refinances

Lenders may solicit and process streamline refinance applications from any area of the country, provided the lender is approved for Direct Endorsement (DE) by at least one Homeownership Center (HOC).

References: For information on

- DE Lender Program application and approval, see
  - HUD 4155.2 2.A, and
  - HUD 4155.2 2.B, and
- HOC jurisdictions, see HUD 4155.1 8.1.
1. Requirements for Streamline Refinances, Continued

4155.1 6.C.1.c
Use of Appraisals on Streamline Refinances

FHA does not require an appraisal on a streamline refinance. These transactions can be made with or without an appraisal.

FHA does not require repairs to be completed on streamline refinances with appraisals, with the exception of lead-based paint repairs. However, the lender may require completion of repairs as a condition of the loan.

References: For information on streamline refinances
• with an appraisal (no credit qualifying), see HUD 4155.1 3.C.3, and
• without an appraisal, see HUD 4155.1 3.C.2.

4155.1 6.C.1.d
Ignoring or Setting Aside an Appraisal on Streamline Refinances

If an appraisal has been performed on a property, and the appraised value is such that the borrower would be better advised to proceed as if no appraisal had been made, then

• the appraisal may be ignored and not used, and
• a notation of this decision must be made on the HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary.

4155.1 6.C.1.e
Reviewing HUD LDP and GSA Exclusion Lists

HUD’s CAIVRS does not need to be checked for streamline refinances, but the following must still be reviewed for all borrowers:

• HUD Limited Denial of Participation (LDP) List, and
• General Services Administration (GSA) List of Parties Excluded from Federal Procurement or Non-procurement Programs.

References: For more information on HUD’s LDP List, GSA exclusion lists, and using CAIVRS to check borrower eligibility for Federally-related credit, see
• HUD 4155.1 4.A.6, and
• HUD 4155.1 4.A.7.

Continued on next page
1. Requirements for Streamline Refinances, Continued

4155.1 6.C.1.f  
Credit Report Requirements and Availability of Credit Score for Streamline Refinances

FHA does not require a credit report, except for credit qualifying streamline refinances. However, the lender may require this as part of their credit policy.

If a credit score is available, the lender must enter the credit score into FHA Connection (FHAC). If more than one credit score is available, the lender must enter all available credit scores into FHAC.

4155.1 6.C.1.g  
Underwriting Requirements, Use of TOTAL Scorecard and Loan Application Documentation

Lenders may not use the TOTAL Scorecard on streamline refinance transactions. If a lender uses TOTAL to underwrite a loan, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction.

Lenders may no longer use an abbreviated version of the Uniform Residential Loan Application (URLA).

Due to various disclosure requirements, the application for mortgage insurance must be signed and dated by the borrower(s) before the loan is underwritten. Lenders are permitted to process and underwrite the loan after the borrower(s) and interviewer complete the initial URLA and initial form HUD 92900A, HUD/VA Addendum to Uniform Residential Loan Application.

The lender must continue to ensure compliance with the Equal Credit Opportunity Act (ECOA) and all other regulatory requirements.

Reference: For information on ECOA and other regulations, see HUD 4155.2 1.B.5.

Continued on next page
1. Requirements for Streamline Refinances, Continued

The lender must certify that the borrower was employed and had income at the time of loan application.

The lender certification must be

- in writing
- on company letterhead, and
- signed and dated.

When submitting the loan for insurance endorsement, the lender must include the signed certification and a copy of the payoff statement in the case binder.

Note: Certification requirements are set forth in Title 18 U.S.C 1014, which provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than $1,000,000 or imprisoned for not more than 30 years or both, and violation of this or others may result in debarment and civil liability for damages suffered by HUD.

References: For information on payoff calculations see 4155.1 3.C.2.c.
2. Credit Qualifying Streamline Refinances

### Introduction

This topic contains information on credit qualifying streamline refinancing, including

- features of a credit qualifying streamline refinance
- the maximum mortgage amount
- lender responsibility for credit documentation and borrower qualifying, and
- required usage of a credit qualifying streamline refinance.

### Change Date

May 10, 2009

### 4155.1 6.C.2.a

**Features of a Credit Qualifying Streamline Refinance**

Credit qualifying streamline refinances contain all the normal features of a streamline refinance, but provide a level of assurance for continued performance on the mortgage.

The lender must provide evidence that the remaining borrowers have an acceptable credit history and ability to make payments.

### 4155.1 6.C.2.b

**Maximum Mortgage Amount**

Guidelines for calculating the maximum mortgage amount on credit qualifying streamline refinances may be found as follows:

<table>
<thead>
<tr>
<th>If the credit qualifying streamline refinance is made ...</th>
<th>Then the maximum mortgage amount is calculated as described in ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>with an appraisal</td>
<td><a href="#">HUD 4155.1 3.C.3</a></td>
</tr>
<tr>
<td>without an appraisal</td>
<td><a href="#">HUD 4155.1 3.C.2</a></td>
</tr>
</tbody>
</table>

*Continued on next page*
2. Credit Qualifying Streamline Refinances, Continued

4155.1 6.C.2.c  
Lender Responsibility for Credit Documentation and Borrower Qualifying

For credit qualifying streamline refinancing, the lender must

- verify the borrower’s income and credit report
- compute the debt-to-income ratios, and
- determine that the borrower will continue to make mortgage payments.

4155.1 6.C.2.d  
Required Usage of a Credit Qualifying Streamline Refinance

Credit qualifying streamline refinances must be considered

- when a change in the mortgage term will result in an increase in the mortgage payment more than 20 percent
- when deletion of a borrower or borrowers will trigger the due-on-sale clause
- following the assumption of a mortgage that
  - occurred less than six months previously, and
  - does not contain restrictions (that is, the due-on-sale clause) limiting assumptions only to creditworthy borrowers, and
- following an assumption of a mortgage that
  - occurred less than six months previously, and
  - did not trigger the transferability restriction (that is, the due-on-sale clause), such as in a property transfer resulting from a divorce decree or by devise or descent.

Note: The use of a credit qualifying streamline refinance in situations in which the change in mortgage term will result in an increase in the mortgage payment is only permissible for

- owner-occupied principal residences
- secondary residences meeting the requirements of HUD 4155.1 4.B.3, and
- those investment properties purchased by governmental agencies and eligible nonprofit organizations as described in HUD 4155.1 4.A.6.
3. Streamline Refinance Borrower and Property Related Requirements

Introduction
This topic contains information on borrower and property related requirements for streamline refinances, including

- borrower cash to close
- holding period prior to borrower eligibility
- borrower additions or deletions to title
- withdrawn condominium approvals
- seven unit exemptions, and
- seasoning and payment requirement for borrower eligibility.

Change Date
December 8, 2009

4155.1 6.C.3.a Borrower Cash to Close on a Streamline Refinance
If assets are needed to close, the lender must verify, document, and determine the acceptability of the assets to be utilized.

Reference: For more information on acceptable source of funds for closing, see 4155.1 5.B.

4155.1 6.C.3.b Holding Period Prior to Borrower Eligibility on a Streamline Refinance
A borrower is eligible for a streamline refinance without credit qualifying if

- he/she has owned the property for at least six months, and
- the previous borrowers received a release of liability at the time of the assumption.

This rule applies to mortgages that do not contain restrictions limiting the assumption only to credit worthy assumptors.

Note: Typically these types of mortgages were made prior to December 1989.

Continued on next page
3. Streamline Refinance Borrower and Property Related Requirements, Continued

4155.1 6.C.3.c Borrower Additions or Deletions to the Title

Individuals may be added to the title on a streamline refinance without

• a credit worthiness review, and
• triggering the due-on-sale clause.

Individuals may be deleted from the title on a streamline refinance, only

• under the circumstances described in HUD 4155.1 6.C.2.d
• when
  – an assumption of a mortgage not containing a due-on-sale clause occurred more than six months previously, and
  – the assumptor can document that he/she has made the mortgage payments during this interim period, or
• following an assumption of a mortgage in which
  – the transferability restriction (due-on-sale clause) was not triggered, such as in a property transfer resulting from a divorce decree or by devise or descent
  – the assumption or quit-claim of interest occurred more than six months previously, and
  – the remaining owner-occupant can demonstrate that he/she has made the mortgage payments during this time.

4155.1 6.C.3.d Withdrawn Condominium Approvals

If approval of a condominium project has been withdrawn, FHA will insure only streamline refinances without appraisals for that condominium project.

Reference: For more information on FHA requirements on condominiums, see HUD 4155.1 4.B.1.

4155.1 6.C.3.e Seven Unit Exemptions

An eligible investor that has a financial interest in more than seven rental units, as described in 24 CFR 203.42, may only refinance without appraisals.

Reference: For more information on the seven-unit limitation, see HUD 4155.1 4.B.4.d.

Continued on next page
3. Streamline Refinance Borrower and Property Related Requirements, Continued

4155.1 6.C.3.f
Seasoning and Mortgage Payment History Requirement for Borrower Eligibility on a Streamline Refinance

At the time of loan application, the borrower must

- have made at least six payments on the FHA-insured mortgage being refinanced, and
- exhibit an acceptable payment history as described in the table below.

<table>
<thead>
<tr>
<th>If the mortgage has …</th>
<th>Then the borrower…</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 12 months payment history</td>
<td>must have made all mortgage payments within the month due</td>
</tr>
</tbody>
</table>
| 12 months payment history or greater | must have
  - experienced no more than one 30 day late payment in the preceding 12 months, and
  - made all mortgage payments within the month due for the three months prior to the date of the loan application. |
4. Types of Permissible Streamline Refinances

**Introduction**
This topic contains information on the types of permissible streamline refinances, including

- no cost refinances
- transactions ineligible for streamline refinance term reduction
- ineligibility of delinquent mortgages
- ARM to ARM refinancing
- ARM to fixed rate refinancing
- fixed rate to ARM refinancing
- GPM to fixed rate refinancing
- GPM to ARM refinancing
- Section 203(k) to Section 203(b) refinancing
- Section 235 to Section 203(b) refinancing, and
- ineligibility of investment properties or secondary residences.

**Change Date**
December 8, 2009

4155.1 6.C.4.a No Cost Refinances

No cost refinances, in which the lender charges a premium interest rate to defray the borrower’s closing costs and/or prepaid items, are permitted.

The lender may also offer an interest free advance of amounts equal to the present escrow balances on the existing mortgage to establish a new escrow account.

*Continued on next page*
4. Types of Permissible Streamline Refinances, Continued

**4155.1 6.C.4.b**  
**Transactions**  
**Ineligible for**  
**Streamline Refinance Term Reduction**  
A transaction for the purpose of reducing the mortgage term, must be underwritten and closed as a rate and term (no cash-out) refinance transaction.  

**Reference:** For more information on the types of refinances, see 4155.1 3.A.1.c.

**4155.1 6.C.4.c**  
**Ineligibility of Delinquent Mortgages**  
Delinquent mortgages are *not* eligible for streamline refinancing until the loan is brought current.  

**Reference:** For more information on streamline refinancing mortgages, see 4155.1 6.C.3.f.

**4155.1 6.C.4.d**  
**ARM to ARM Refinancing**  
An ARM may be refinanced to another ARM, provided that there is a net tangible benefit to the borrower.  

**Important:** An ARM may be used only for refinancing principal residences.  

**References:** For more information on the net tangible benefit of refinance, see  
- 4155.1 6.C.5.a, and  
- 4155.1 6.C.5.b.

**4155.1 6.C.4.e**  
**ARM to Fixed Rate Refinancing**  
The interest rate on the new fixed rate mortgage will be no greater than 2 percentage points above the current rate of the one-year ARM. For hybrid ARMs, the total mortgage payment on the new fixed rate mortgage may not increase by more than 20 percent.  

**Example:** Total mortgage payment on the hybrid ARM is $895; the total mortgage payment for the new fixed rate mortgage must be $1,074 or less.  

**Reference:** For more information on acceptable payment history, see 4155.1 6.C.3.f

*Continued on next page*
4. **Types of Permissible Streamline Refinances**, Continued

<table>
<thead>
<tr>
<th>4155.1 6.C.4.f</th>
<th>Fixed Rate to ARM Refinancing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A fixed rate mortgage may be refinanced to a one year ARM, with or without an appraisal, provided that the interest rate of the new mortgage is at least two percentage points below the interest rate of the current mortgage.</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4155.1 6.C.4.g</th>
<th>GPM to Fixed Rate Refinancing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A section 245 Graduated Payment Mortgage (GPM) may be refinanced to a fixed rate mortgage, with or without an appraisal, provided that there is a net tangible benefit to the borrower.</strong></td>
<td></td>
</tr>
</tbody>
</table>

If the streamline refinance is completed without an appraisal, the new mortgage amount may exceed the statutory limit by the accrued negative amortization, and the new UFMIP.

**References:** For more information on
- net tangible benefit requirements, see 4155.1 6.C.5.a and 4155.1 6.C.5.b,
- seasoning requirements for streamline refinances, see 4155.1 6.C.3.f.

<table>
<thead>
<tr>
<th>4155.1 6.C.4.h</th>
<th>GPM to ARM Refinancing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A GPM may be refinanced to an ARM, provided that the note rate results in a reduction to the current principal and interest payments.</strong></td>
<td></td>
</tr>
</tbody>
</table>

If the streamline refinance is completed without an appraisal, the new mortgage amount may exceed the statutory limit by the accrued negative amortization, and the new UFMIP.  

*Continued on next page*
4. Types of Permissible Streamline Refinances, Continued

4155.1 6.C.4.i  
Section 203(k) to Section 203(b) Refinancing

A section 203(k) rehabilitation mortgage may be refinanced into a Section 203(b) mortgage after all work is complete.

The rehabilitation work is considered complete by

- a fully executed certificate of completion
- closing the rehabilitation escrow account with a final release, and
- the lender entering the required close out information into the FHA Connection, or its functional equivalent.

Note: Before lenders can order a case number for a refinance of a Section 203(k) mortgage, the previous lender must have completed the Section 203(k) closeout process in FHA Connection. See https://entp.hud.gov/clas/html/f17npcase-1.cfm for further information.

Reference: For more information on the Section 203(b) Home Mortgage Insurance Program, see HUD 4155.2 1.C.2.

4155.1 6.C.4.j  
Section 235 to Section 203(b) Refinancing

Lenders may refinance Section 235 mortgages to Section 203(b) mortgages using the streamline underwriting procedures described in HUD 4155.1 6.C and HUD 4155.1 3.C.

Any overpaid subsidy that has been paid by the lender to HUD, and is part of the borrower’s mortgage account, can be included in the Section 203(b) mortgage amount, provided that the mortgage amount does not exceed the maximum mortgage permitted under the streamline refinancing requirements described in either HUD 4155.1 3.C.2 or HUD 4155.1 3.C.3, as appropriate.

If HUD has a junior lien that was part of the original Section 235 financing, HUD will subordinate the junior lien to the Section 203(b) mortgage that refines the Section 235 mortgage.

Continued on next page
4. Types of Permissible Streamline Refinances, Continued

4155.1 6.C.4.k Investment Properties or Secondary Residences Ineligible for Streamline Refinance

In addition to meeting the requirement for a reduction in the total mortgage payment, investment properties or secondary residences are not eligible for streamline refinancing to ARMs.

**References:** For more information on
- investment properties, see 4155.1 4.B.4, and
- secondary residences, see 4155.1 4.B.3.
5. Establishing Net Tangible Benefit of Streamline Refinance

Introduction
This topic contains information on establishing the net tangible benefit of a streamline refinance, including

- definition of net tangible benefit
- net tangible benefit of reduction in total mortgage payment
- net tangible benefit of refinance from adjustable rate mortgage (ARM) to fixed rate mortgage, and
- net tangible of fixed rate to ARM refinance.

Change Date
December 8, 2009

4155.1 6.C.5.a
Definition of Net Tangible Benefit of Streamline Refinance
The lender must determine that there is a net tangible benefit as a result of the streamline refinance transaction, with or without an appraisal.

Net tangible benefit is defined as a

- reduction in the total mortgage payment, which includes
  - principal
  - interest
  - taxes and insurances
  - homeowners’ association fees
  - ground rents
  - special assessments, and
  - all subordinate liens, or
- refinance from an ARM to a fixed rate mortgage.

References: For more information on the net tangible benefit of
- reduction in total mortgage payment, see 4155.1 6.C.5.b
- ARM to fixed rate refinances, see 4155.1 6.C.5.c, and
- fixed rate to ARM refinances, see 4155.1 6.C.4.e.

Continued on next page
5. Establishing Net Tangible Benefit of Streamline Refinance, Continued

To qualify as a net tangible benefit, the new total mortgage payment must be *at least* five percent lower than the total mortgage payment for the mortgage being refinanced.

*Example:* Total mortgage payment on the existing FHA-insured mortgage is $895; the total mortgage payment for the new FHA-insured mortgage must be $850 or less.

*Note:* This requirement applies when refinancing from
- fixed rate to fixed rate
- ARM to ARM
- Graduated Payment Mortgage (GPM) to ARM
- GPM to fixed rate
- GPM to ARM
- 203(k) to 203(b), and
- 235 to 203(b).

*References:* For additional information on
- ARM to ARM refinancing, see 4155.1 6.C.4.d
- fixed rate to ARM refinancing, see 4155.1 6.C.5.d
- GPM to ARM refinancing, see 4155.1 6.C.4.h
- GPM to fixed rate refinancing, see 4155.1 6.C.4.g
- 203(k) to 203(b) refinancing, see 4155.1 6.C.4.i, and
- 235 to 203(b) refinancing, see 4155.1 6.C.4.j.
5. Establishing Net Tangible Benefit of Streamline Refinance, Continued

4155.1 6.C.5.c Net Tangible Benefit of ARM to Fixed Rate Refinance

The interest rate on the new fixed rate mortgage will be no greater than two percentage points above the current rate of a one-year ARM.

**Important:** For hybrid ARMs, the total mortgage payment on the new fixed rate mortgage may not increase by more than 20 percent.

**Example:** Total mortgage payment on the hybrid ARM is $895; the total mortgage payment for the new fixed rate mortgage must be $1,074 or less.

**Reference:** For additional information on ARM to fixed rate refinancing see 4155.1 6.C.4.e.

4155.1 6.C.5.d Net Tangible Benefit of Fixed Rate to ARM Refinance

Fixed rate mortgages may be refinanced to one-year ARMs provided that the interest rate in the new mortgage is *at least* two percentage points below the interest rate of the current mortgage.

**Reference:** For additional information on fixed rate to ARM refinancing see 4155.1 6.C.4.f.
Section D. Energy Efficient Mortgage Program

Overview

In This Section
This section contains the topics listed in the table below.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Topic Name</th>
<th>See Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Information on the EEM Program</td>
<td>6-D-2</td>
</tr>
<tr>
<td>2</td>
<td>Basic EEM Program Requirements and Criteria</td>
<td>6-D-6</td>
</tr>
<tr>
<td>3</td>
<td>Home Energy Rating System (HERS) Report</td>
<td>6-D-12</td>
</tr>
<tr>
<td></td>
<td>Requirements</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Processing and Underwriting Requirements</td>
<td>6-D-15</td>
</tr>
</tbody>
</table>
1. General Information on the EEM Program

Introduction

This topic contains general information on the Energy Efficient Mortgage (EEM) Program, including

- the purpose of the EEM
- EEM maximum allowable financing
- FHA endorsement prior to EEM improvement installation, and
- escrow account responsibilities and requirements.

Change Date

May 10, 2009

4155.1 6.D.1.a Purpose of the EEM Program

The FHA EEM Program allows a borrower to finance 100 percent of the expense of a cost effective “energy package,” that is, the property improvements to make the house more energy efficient. The EEM Program recognizes that the improved energy efficiency of a house can increase its affordability by reducing the operating costs.

Because the home is energy efficient, the occupant(s) will save on utility costs, and therefore, be able to devote more income to the monthly mortgage payment.

A cost effective energy package is 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.

Continued on next page
Under the FHA EEM Program, a borrower can finance into the mortgage 100 percent of the cost of eligible energy efficient improvements, subject to certain dollar limitations, without an appraisal of the energy efficient improvements. For the EEM Program

- the mortgage amount includes the cost of the energy efficient improvement, in addition to the usual mortgage amount normally permitted
- the FHA maximum loan limit for the area may be exceeded by the cost of the energy efficient improvements
- for existing properties, energy related weatherization items may be combined with the EEM, where the maximum dollar amount allowed under the EEM does not cover the cost of the entire energy package, and
- the energy efficient improvements must be cost effective in order to be included into the mortgage.

The amount of the cost effective energy package is added to the approved base loan amount before adding any upfront mortgage insurance premium.

The FHA maximum loan limit for the area may be exceeded by the cost of the energy efficient improvements.

For existing properties, energy-related weatherization items may be combined with the EEM, where the maximum dollar amount allowed under an EEM does not cover the cost of the entire energy package. The weatherization amount would be the cost of the improvements not covered by the EEM amount. With a 203(k), the excess improvements would be included in the rehabilitation work.

Note: While the energy package may be financed into the loan, the borrower does not need to qualify with the additional financing or provide additional down payment.

References: For more information on
- cost-effectiveness of the improvements, see HUD 4155.1 6.D.2.d
- the calculation worksheet, see HUD 4155.1 6.D.4.b, and
- maximum mortgage additions, see HUD 4155.1 2.A.5.g.

Continued on next page
FHA will endorse a mortgage for an existing property, before the energy-efficient improvements are installed, provided that the lender establishes an escrow account and deposits funds into the account to pay for the energy-efficient improvements.

The escrow account must be established for no more than 90 days (or 180 days for Section 203(k) rehabilitation mortgages), and, if the improvements are not completed within 90 days (or 180 days for Section 203(k) rehabilitation mortgages), the lender must apply the funds held in escrow to a prepayment of the principal balance of the mortgage.

Note: For new construction, there is no escrow account since the energy package is installed as part of the total construction, which must be completed prior to closing. The energy package must be completed before the mortgage is eligible for insurance, if using FHA’s Construction-Permanent mortgage.

Reference: For more information on lender responsibilities for the escrow account, see HUD 4155.1 6.D.1.d.
4155.1 6.D.1.d
Lender Responsibilities for the EEM Escrow Account

In order for FHA to insure a mortgage prior to installation of energy-efficient improvements, the lender must

- ensure that an escrow account is established and insured at a financial institution supervised by a Federal agency, and that the appropriate funds are deposited into the account
- administer the account, or arrange for administration by a
  - utility company
  - nonprofit organization, or
  - government agency
- execute Form HUD-92300, Mortgage Assurance of Completion, to indicate that the escrow for the improvements has been established, and
- upon completion of the improvements
  - inspect the improvements, or arrange for inspection by the rater or an FHA fee inspector, and
  - notify FHA, through the FHA Connection, that the improvements have been made and that the escrow has been cleared.

Notes:

- The borrower cannot
  - be paid for labor (sweat equity) on work he/she performed, or
  - receive cash back from the mortgage transaction.
- If the improvements are not completed within 90 days, or 180 days for a 203(k) rehabilitation mortgage, the lender must apply the funds held in escrow to a prepayment of the mortgage principal.
2. Basic EEM Program Requirements and Criteria

Introduction

This topic contains information on basic EEM program requirements and criteria, including

- eligible EEM properties and programs
- underwriting the EEM
- appraisal requirements
- the cost of energy efficient improvements
- determining the energy package
- when work differs from the approved energy package
- the required inspection by a HERS representative
- requirements for the HERS representative, and
- the requirement for streamline refinance transactions.

Change Date

October 26, 2009

4155.1 6.D.2.a Eligible EEM Properties and Programs

New and existing one to four unit properties, including one unit condominiums and manufactured housing properties, are eligible for the EEM Program.

EEMs may be used for both purchases and refinances, including streamline refinances, with

- Section 203(b)
- Section 203(k) rehabilitating loans
- Section 234(c) units in condominium projects, and
- 203(h) mortgages for disaster victims

Note: The allowable EEM dollar amount is for the entire property, and not based on a per unit base for multiple unit properties.

Continued on next page
The mortgage is initially underwritten as if the energy package did not exist, by using standard FHA underwriting standards, qualifying income ratios, and maximum mortgage/minimum down payment requirements without regard to the energy package.

For an EEM on new construction, as well as those homes that were built to the 2000 International Energy Conservation Code, formerly known as the Model Energy Code, or are being retrofitted to that standard, the borrower in addition to the cost of improvements, can get “stretch ratios” of 33% and 45%.

Also for new construction, when qualifying the borrower, the cost of the energy package should be subtracted from the sales price (since the builder has included those improvements in the sales price) and the qualifying ratios calculated on this lower amount.

FHA does not set the fees for the Home Energy Rating, including the physical inspection, the HERS Report, and any post-installation test. The fees charged to the borrower for the Home Energy Rating must be customary and reasonable for the area. These fees may be included and financed as part of the energy package if the entire package, including those fees, is cost-effective. If not, such fees are considered closing costs. With a Section 203(k), the rating fee and inspections would be in addition to the consultant’s fee.

*Note:* FHA’s TOTAL mortgage scorecard may also be used for underwriting EEMs. If the lender obtains an “accept” or “approve” on a mortgage loan application, FHA will recognize the risk rating from TOTAL and permit the increase to the mortgage payment without re-underwriting or rescoring provided that the lender’s DE underwriter attests that he or she has reviewed the calculations associated with the energy efficient improvements, and found the mortgage and the property to be in compliance with FHA’s underwriting instructions.
2. Basic EEM Program Requirements and Criteria, Continued

4155.1 6.D.2.c
Appraisal Requirements

There is no need for a second appraisal that reflects the expense of the energy package and the improvements. The appraisal does not need to reflect the value of the energy package that will be added to the property for either new or existing construction.

On a Section 203(k), the after-improved value is to be used for the EEM process.

4155.1 6.D.2.d
Cost of Energy Efficient Improvements

Once the borrower and the property are determined eligible for FHA-insured financing, the lender determines the dollar amount of the cost-effective energy package that may be added to the mortgage amount, using the energy rating report and an EEM worksheet.

The cost of any improvement to the property is eligible for financing into the mortgage, providing it will increase the property’s energy efficiency and is determined to be cost effective.

In addition to the base FHA maximum mortgage amount, which is calculated on the value of the home, the loan amount for an EEM can be increased by the cost of effective energy improvements. The maximum amount of the cost of the energy efficient improvements that may be added to the base mortgage amount is up to the least of 5% of

- the value of the property
- 115% of the median area price of a single family dwelling, or
- 150% of the conforming Freddie Mac limit.

Continued on next page
2. Basic EEM Program Requirements and Criteria, Continued

4155.1 6.D.2.e
**Determining the Energy Package**

The energy package is the set of improvements agreed to by the borrower, based on recommendations and analysis performed by a qualified home energy rater using the HERS tool.

The HERS must

- meet the minimum requirements of the Department of Energy (DOE) approved ratings guidelines, and
- achieve passing results for DOE’s Building Energy Simulation Test (BESTTEST), or subsequent testing requirements.

For new construction, the energy package includes those cost-effective energy improvements over and above the requirements of the 2000 IECC.

4155.1 6.D.2.f
**When Work Differs From the Approved Energy Package**

The table below describes the actions required if the improvement work differs from that of the approved energy package.

<table>
<thead>
<tr>
<th>When the ...</th>
<th>Then ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>work that is done differs from the approved energy package</td>
<td>submit a change order, along with a revised HERS report to the DE underwriter for approval.</td>
</tr>
<tr>
<td>changes still meet the cost-effectiveness test</td>
<td>further analysis is <em>not</em> required.</td>
</tr>
<tr>
<td>changes <em>do not</em> meet the cost-effectiveness test</td>
<td>the funds for the work not included in the approved energy package must be used to pay down the loan principal.</td>
</tr>
</tbody>
</table>

*Continued on next page*
2. Basic EEM Program Requirements and Criteria, Continued

4155.1 6.D.2.g
Required Inspection by HERS Representative

The cost of the energy improvements, including maintenance costs, and the estimate of the energy savings must be determined based upon a physical inspection of the property by a home energy rater using HERS.

The rater must be trained to perform the physical inspection and/or diagnostic tests that provide the data on the property. The home energy rater, using the HERS, prepares a written home energy rating report, and provides copies to both the homebuyer/homeowner, and the lender.

The HERS report provides estimates of the costs of improvements and the expected energy savings. The report is developed either from

- a physical inspection of the existing property, or
- the plans and specifications of the house being built.

The lender must include a copy of the HERS report and Energy Efficient Mortgage Worksheet in the closing package, placed behind Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary, when requesting insurance endorsement.

References: For more information on
- requirements for the HERS representative, see HUD 4155.1 6.D.2.h, and
- information for the home energy rating report, see HUD 4155.1 6.D.3.

4155.1 6.D.2.h
Requirements for the HERS Representative

The HERS representative or energy consultant, must be an independent entity. He/she cannot be related directly or indirectly to the seller of the property, the prospective borrower, or the contractor selected by the borrower to install the energy efficient improvements.

The HERS representative or energy consultant may be

- a utility company
- a local, state, or Federal government agent
- an entity approved by a local, state, or Federal government agency specifically for the purpose of providing home energy ratings on residential properties, or
- a nonprofit organization experienced in conducting home energy ratings of residential properties.

Continued on next page
For a streamline refinance, the borrower’s P&I payment on the new loan, including the energy package, may be greater than the P&I payment on the current loan, provided the estimated monthly energy savings as shown on the HERS report exceeds the increase in the P&I.

On a streamline refinance without an appraisal, the original principal balance substitutes for an appraised value.
3. Home Energy Rating System (HERS) Report Requirements

Introduction

This topic contains information on the requirements for the home energy rating report, including

• HERS report requirements
• required information for the HERS report, and
• the HERS representative certification statement.

Change Date

May 10, 2009

4155.1 6.D.3.a
HERS Report Requirements

The HERS representative or energy consultant is responsible for preparing the home energy rating report. He/she must

• prepare the report in writing, and
• provide a copy to the
  – prospective borrower, and
  – lender.

Note: The lender must include a copy of the home energy rating report in the closing package, when requesting insurance endorsement.

Continued on next page

The energy package report prepared by the HERS representative must include the information described in the table below.

<table>
<thead>
<tr>
<th>Type of Information</th>
<th>What to Include</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Information</td>
<td>Include</td>
</tr>
<tr>
<td></td>
<td>• the address of the property</td>
</tr>
<tr>
<td></td>
<td>• the name of the homebuyer(s)/homeowner(s)</td>
</tr>
<tr>
<td></td>
<td>• the FHA case number (if applicable)</td>
</tr>
<tr>
<td></td>
<td>• the name of lender (if applicable)</td>
</tr>
<tr>
<td></td>
<td>• the type of property</td>
</tr>
<tr>
<td></td>
<td>• identify new or existing property, and</td>
</tr>
<tr>
<td></td>
<td>• the date of the</td>
</tr>
<tr>
<td></td>
<td>– physical inspection of the existing property, or</td>
</tr>
<tr>
<td></td>
<td>– plan review for new construction.</td>
</tr>
<tr>
<td>Energy Features Description</td>
<td>Include a description of the energy features currently at the property (or proposed features if new construction), including, at a minimum</td>
</tr>
<tr>
<td></td>
<td>• a description of the insulation R values in ceilings, walls, and floors</td>
</tr>
<tr>
<td></td>
<td>• infiltration levels and barriers (caulking, weatherstripping, and sealing)</td>
</tr>
<tr>
<td></td>
<td>• a description of the windows (storm, double pane, triple pane) and doors, and</td>
</tr>
<tr>
<td></td>
<td>• a description of the heating (including water heating) and cooling systems.</td>
</tr>
<tr>
<td>Energy Package Description</td>
<td>Include a description of the energy package, which for</td>
</tr>
<tr>
<td></td>
<td>• existing properties, includes those cost-effective improvements recommended to improve the energy efficiency of the property, or</td>
</tr>
<tr>
<td></td>
<td>• new construction, includes those cost-effective improvements to be included in the home that exceeded the requirements of 2000 IECC.</td>
</tr>
</tbody>
</table>
### 3. Home Energy Rating System (HERS) Report Requirements, Continued

**4155.1 6.D.3.b**  Required Information for the HERS Report (continued)

<table>
<thead>
<tr>
<th>Type of Information</th>
<th>What to Include</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Package Estimate</td>
<td>Include estimated costs of the energy package, the useful life, and the costs of any maintenance over the useful life of the improvements.</td>
</tr>
<tr>
<td>Annual Estimates</td>
<td>The estimated present annual utility costs, before installation of the energy package, for existing property and for new construction (i.e., a referenced house built to 2000 IECC standards)</td>
</tr>
<tr>
<td></td>
<td>Include the estimated annual</td>
</tr>
<tr>
<td></td>
<td>• costs after installation of the energy package, and</td>
</tr>
<tr>
<td></td>
<td>• savings in utility costs after installation of the energy package, including the present value of the savings.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> The present value test is a statutory requirement. Actual energy savings cannot be used to determine cost effectiveness in lieu of the present value calculation of the energy savings.</td>
</tr>
<tr>
<td>Inspection Report Names</td>
<td>Include printed name(s) and signature(s) of the person(s) performing the inspection and preparing the report, as well as the date of the report.</td>
</tr>
</tbody>
</table>

**4155.1 6.D.3.c**  HERS Representative Certification Statement

The following certification statement must be signed by the person(s) who

- inspected the property, and
- prepared the HERS report.

“I certify, that to the best of my knowledge and belief, the information contained in this report is true and accurate and I understand that the information in this report may be used in connection with an application for an energy efficient mortgage to be insured by the Federal Housing Administration of the United States Department of Housing and Urban Development.”
4. Processing and Underwriting Requirements

Introduction

This topic contains information on the processing and underwriting requirements, including

- processing an EEM, and
- the Energy Efficient Mortgage Worksheet.

Change Date

May 10, 2009

4155.1 6.D.4.a

Processing an EEM

When a borrower submits a loan application, the lender processes the loan application and qualifies the borrower using the standard underwriting requirements and qualifying ratios.

If the borrower elects to have an EEM and add the cost of the energy efficient improvements to the mortgage, the lender must complete the additional processing steps found in the table below.

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
</table>
| 1    | Obtain the home energy rating report prepared by a HERS representative or energy consultant showing  
      - the estimated costs of installing the energy efficient improvements, including any maintenance costs, and  
      - the estimated annual savings in utility costs that will result from the installation of the energy efficient improvements. |
| 2    | Using the HERS report, determine whether the energy efficient improvements are “cost effective” by calculating the  
      - present cost of the energy improvements, including maintenance costs (if any) over the useful life of the improvements, and  
      - present value of the energy savings over the useful life of the energy improvements. |

Continued on next page
### Processing an EEM (continued)

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Are the energy-efficient improvements cost effective (meaning that the present cost of improvements is less than the present value of the energy savings)?</td>
</tr>
<tr>
<td></td>
<td><strong>If yes</strong></td>
</tr>
<tr>
<td></td>
<td>– add 100 percent of the cost of the energy-efficient improvements, subject to the dollar limits described in <a href="#">HUD 4155.1 6.D.2.d</a>, to the otherwise allowable maximum mortgage amount, and</td>
</tr>
<tr>
<td></td>
<td>– go to Step 4.</td>
</tr>
<tr>
<td></td>
<td><strong>If no, do not</strong> include the additional expense of the energy package in the maximum mortgage amount.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> If the improvements are determined to be cost effective, no appraisal is necessary and the borrower is not required to meet any further credit standards.</td>
</tr>
<tr>
<td>4</td>
<td>Calculate the UFMIP on the full mortgage amount, which includes the cost of the energy improvements.</td>
</tr>
</tbody>
</table>

*Continued on next page*
4. Processing and Underwriting Requirements, Continued

4155.1 6.D.4.b The following is a copy of the *Energy Efficient Mortgage Worksheet*.

<table>
<thead>
<tr>
<th><strong>Energy Efficient Worksheet</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Borrower’s Name:</strong></td>
</tr>
<tr>
<td><strong>Property Address:</strong></td>
</tr>
<tr>
<td><strong>A. Qualifying Mortgage Amount</strong></td>
</tr>
<tr>
<td>1. Mortgage (w/o MIP)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Compare Cost and PV of energy savings:</strong></td>
</tr>
<tr>
<td>• Cost of the Energy Package $ ____</td>
</tr>
<tr>
<td>• PV of Energy Saved $ _____</td>
</tr>
<tr>
<td>• Is PV more than Cost? Y / N</td>
</tr>
<tr>
<td>• If Yes, Continue:</td>
</tr>
<tr>
<td>1. If the Cost is less than $4,000, enter the Cost in B.</td>
</tr>
<tr>
<td>2. If the Cost is more than $4,000, but 5% of the value is less than $4,000, enter $4,000 in B.</td>
</tr>
<tr>
<td>3. If the Cost is less than 5% of the value, but 5% of the value is more than $4,000, enter the lesser of the cost, or $8,000 in B.</td>
</tr>
<tr>
<td>4. If the Cost is greater than 5% of the value, enter the lesser of 5% of the value, or $8,000 in B.</td>
</tr>
<tr>
<td><strong>C. Final EEM Mortgage Amount (without MIP)</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>REMARKS:</strong></td>
</tr>
</tbody>
</table>
Section E. Hope for Homeowners (H4H) Program

Overview

In This Section  This section contains the topic “General Information on the Hope for Homeowners (H4H) program.”
1. General Information on the HOPE for Homeowners (H4H) Program

Introduction

This topic contains general information on the HOPE for Homeowners (H4H) program, including

- a description of the H4H program
- the effective dates for the program, and
- a reference for additional information on the H4H program.

Change Date

July 6, 2009

4155.1 6.E.1.a Description of the H4H Program

The Housing and Economic Recovery Act of 2008 amended the National Housing Act to authorize a new temporary FHA program called the HOPE for Homeowners (H4H) program.

Under the H4H program, certain borrowers who are having difficulty in paying their mortgages are eligible to refinance into affordable FHA-insured mortgages.

4155.1 6.E.1.b Effective Dates for the H4H Program

The H4H program is effective for endorsements on or after October 1, 2008 through September 30, 2011

4155.1 6.E.1.c Additional Information on the H4H Program Reference

For additional information on the H4H program, see

- ML 2008-29, and
- ML 2009-03.