



Bulletin 14-19 Revised

FHA Program – Manual Underwriting

HomeBridge Bulletin 14-19 issued April 18, 2014 has been revised. Refer to the yellow highlight.

HUD Mortgagee Letter 2014-02, issued January 21, 2014, detailed HUD's new requirements for manually underwritten FHA loans. HomeBridge overlays to HUD guidelines continue to apply.

Reserve Requirements – All Manually Underwritten Loans

All manually underwritten loans, **regardless of DTI**, are now subject to the following reserve requirements:

- 1-2 units: A minimum of 1 month of the total monthly mortgage payment (PITI + MIP). Previously FHA did not have a reserve requirement on 1-2 unit properties.

NOTE: FHA continues to require 3-4 units to require 3 months (PITI + MIP in reserves).

The new reserve requirement for 1-2 units applies to all manually underwritten loans with a case number assigned on or after April 21, 2014 (including case numbers re-issued when previous case number expired).

Exceeding 31%/43% DTI and Required Compensating Factors

The new manual underwriting requirements regarding maximum DTI and the applicable compensating factor requirement apply as follows:

- Case numbers assigned on or after April 21, 2014 (including case numbers re-issued when previous case number expired), **and**
- **The DTI exceeds 31%/43%** (if **either** ratio exceeds its maximum, e.g. 34%/41%, the new guidelines apply).

These new requirements do **not** apply if the DTI does not exceed 31%/43% or to non-credit qualifying Streamline refinance transactions.

HomeBridge limits manual underwriting to the following:

- The loan received an "**Approve/Eligible**" Finding but requires a downgrade to manual underwriting due to additional information not considered in the DU decision that affects the overall insurability or eligibility of the loan, **or**
- The loan received a "**Refer/Eligible**" Finding from DU. The loan cannot have layered risk and must have compensating factors (applicable to loans with a DTI \leq 31%/43%) to be eligible for a manual underwrite; eligible on an exception basis.

NOTE: The compensating factor requirements for exceeding the maximum DTI in this Bulletin **do not apply** to loans where the borrower's credit score is 580-619, borrowers with insufficient credit **or** none of the borrowers have a credit score as the maximum DTI for both is 31%/43%. The new reserve requirements **do apply to all manual underwrites regardless of DTI.**

Minimum Decision Credit Score

As a reminder, when determining the minimum decision credit score for the loan and there are multiple borrowers, the lowest minimum decision credit score of all borrowers is used. The minimum decision credit score for the loan is used to determine the maximum DTI.

Eligibility to Exceed 31% / 43% DTI

The table below identifies the maximum eligible DTI as determined by the applicable compensating factor.

As a reminder, HomeBridge does not allow the DTI to exceed 31%/43% with < 620 credit score regardless of HUD guidelines

Credit Score/ Compensating Factor(s)*	Maximum DTI	Requirements
620+ and No Compensating Factor	31% / 43%	<ul style="list-style-type: none"> Max DTI cannot be exceeded (new FHA requirement; underwriter discretion to exceed max. DTI no longer allowed. DTI cannot be exceeded without HUD eligible compensating factor) Must meet manual underwriting cash reserve requirement: <ul style="list-style-type: none"> 1-2 units: Minimum 1 month reserves (new FHA requirement) 3-4 units: Minimum 3 months reserves (previously required)
620+ and One Compensating Factor	37% / 47%	Compensating factor must be one of the following: <ul style="list-style-type: none"> Additional cash reserves <ul style="list-style-type: none"> 1-2 units: Minimum 3 months reserves 3-4 units: Minimum 6 months reserves Minimal housing increase** Residual income** Additional income not used for qualification**
620+ and Two Compensating Factors	40% / 50%	Compensating factors must be two of the following: <ul style="list-style-type: none"> Additional cash reserves <ul style="list-style-type: none"> 1-2 units: Minimum 3 months reserves 3-4 units: Minimum 6 months reserves Minimal housing increase** Residual income** Additional income not used for qualification**
620+ and No Discretionary Debt	40% / 40%	<ul style="list-style-type: none"> All requirements under the "No Discretionary Debt" topic detailed on the table on page 3 must be met. Must meet manual underwriting cash reserve requirement: <ul style="list-style-type: none"> 1-2 units: Minimum 1 month reserves 3-4 units: Minimum 3 months reserves

*Refer to page 3 for detailed compensating factor requirements

** Minimum reserve requirements for manually underwritten loans must still be met

- 1-2 units: Minimum 1 month reserves
- 3-4 units: Minimum 3 months reserves

Compensating Factors

The table below details eligible compensating factors and the applicable requirements.

Eligible Compensating Factors for Manually Underwritten Loans with DTI > 31%/43%	
Compensating Factor	Requirements
1. Additional Cash Reserves	<ul style="list-style-type: none"> • 1 and 2 units: 3 months or more of the total monthly mortgage payment (PITI + MIP) • 3 and 4 units: 6 months or more of the total monthly mortgage payment (PITI + MIP) <p>Retirement accounts (IRA, 401K, Keogh, etc.) are eligible to satisfy reserve requirements subject to:</p> <ul style="list-style-type: none"> • Maximum 60% of the vested account, minus any outstanding loan balance(s) may be used (any funds used for loan settlement must be excluded) • The account allows for withdrawals other than for retirement, death or employment termination. If not, the funds are ineligible towards reserves. <p>The following are ineligible to meet reserve requirements:</p> <ul style="list-style-type: none"> • Any cash-back from the transaction • Gift or borrowed funds • Equity in other real estate owned
2. Minimal Housing Increase	<p>Minimal housing increase defined as:</p> <ul style="list-style-type: none"> • New monthly mortgage payment (PITI + MIP) does not exceed the current housing payment by the lesser of: <ul style="list-style-type: none"> - \$100, or - 5% of the current housing payment, and • Borrower must have a documented 12 month housing history; if 12 months housing cannot be documented the minimal housing increase cannot be used as a compensating factor. The following applies to the required housing history: <ul style="list-style-type: none"> - Purchase and rate/term refinance transactions: <ul style="list-style-type: none"> - Maximum 1x30 in previous 12 months - Cash-out transactions: 0x30 in previous 12 months <p>Refer to the HomeBridge FHA matrix for documentation requirements</p>
3. No Discretionary Debt	<p>May be considered a compensating factor when:</p> <ul style="list-style-type: none"> • The only open account with an outstanding balance that is not paid off monthly is the borrower's mortgage (N/A to purchase borrowers who currently rent), and • The borrower's credit report indicates established tradelines, open for a minimum of 6 months, in the borrower's name (authorized user accounts not eligible), and • The borrower has paid any account balances in full for the previous 6 months (documentation of payment is required) <p>Refer to the HomeBridge FHA matrix for documentation requirements</p>
4. Additional Income (Income that was not used to qualify for the loan)	<p>The following additional income is eligible, if not used for qualification:</p> <ul style="list-style-type: none"> • Bonus, • Overtime, • Part-time/seasonal <p>The borrower must be able to document receipt of the income for a minimum of 1 year but < 2 years and is likely to continue AND if the income had been used for qualifying the DTI would not be more than 37%/47%.</p> <p>Eligible as follows:</p> <ul style="list-style-type: none"> • If DTI will not exceed 37%/47% may be used as the only compensating factor; no additional compensating factor required. • If DTI exceeds 37%/47% but is not more than 40%/50% another compensating factor is required in addition to using additional income. <p>NOTE: Income from anyone not a borrower on the loan may not be used (non-borrowing spouse, domestic partner, etc.)</p>
5. Residual Income*	<p>Eligible subject to VA residual income guidelines.</p> <ul style="list-style-type: none"> • All of the borrower's household members are counted regardless of the relationship to the borrower or if they will be on the loan with the exception of "self-sufficient" household members (i.e. the household member who fully supports themselves, with verifiable income, and that income was not used for qualifying) • Residual income is determined by taking the gross monthly income of all occupying borrowers and deducting the following: <ul style="list-style-type: none"> - Federal and state taxes, social security, retirement (use figures from current paystub) - Proposed housing payment (PITI + HOA, assessments, if applicable) - Fixed monthly debt/obligations, and - Expected home maintenance/utility costs (calculated at 14¢ per square foot). <p>NOTE: Non-taxable income cannot be grossed-up to meet residual income requirements.</p>

* Refer to page 4 for residual income charts

VA Residual Income Requirements

Loan Amounts ≤ 79,999				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
Over 5	Add \$75.00 for each additional family member up to 7.			

Loan Amounts ≥ 80,000				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
Over 5	Add \$80.00 for each additional family member up to 7			

Geographic Regions as Identified by VA			
Northeast	Connecticut	New Hampshire	Pennsylvania
	Maine	New Jersey	Rhode Island
	Massachusetts	New York	Vermont
Midwest	Illinois	Michigan	North Dakota
	Indiana	Minnesota	Ohio
	Iowa	Missouri	South Dakota
	Kansas	Nebraska	Wisconsin
South	Alabama	Kentucky	Puerto Rico
	Arkansas	Louisiana	South Carolina
	Delaware	Maryland	Tennessee
	District of Columbia	Mississippi	Texas
	Florida	North Carolina	Virginia
	Georgia	Oklahoma	West Virginia
West	Alaska	Hawaii	New Mexico
	Arizona	Idaho	Oregon
	California	Montana	Utah
	Colorado	Nevada	Washington
			Wyoming

HomeBridge has updated the FHA and FHA Streamline matrices with this information and posted them on the HomeBridge website at www.homebridgewholesale.com

If you have any questions, please contact your Account Executive.