



Pacific Union Financial
YOUR INTERESTS ARE COVERED

Pacific Union Financial

FHA Guidelines

(3/20/2012)

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**Underwriting questions or loan scenarios?
Call or email your Account Executive for assistance.**

***** Please be advised that investor overlays apply and can overrule HUD 4155 manual *****

Eligible Products

FHA Products

- FHA Fixed Rate 15 Year
- FHA Fixed Rate 30 Year
- Fully amortizing Hybrid ARMs

Escrow Waivers

- Not permitted

FHA GR\$\$N

All loans submitted thru “FLOW” (Flexibility in Loan Origination Workplace) are eligible for the FHA GR\$\$N program if the loan receives a DO/DU approve/accept, meets FHA guidelines and all of the following are met:

- Max DTI does not exceed 50%
- There are no non occupant co-borrower(s)
- The qualifying FICO is 680 or higher and
- The borrower has 6 months PITI in reserves (680-699 FICO score only)

FHA Portfolio

Pacific Union Financial offers extended FHA guidelines on its Portfolio program allowing:

- Fico Scores between 560-639 on Conforming Loans
- Fico Scores between 600-639 on High Balance Loans

For complete requirements on our FHA Portfolio product, please see product matrix found on page 10

Transaction Types

Purchase Mortgages

96.50% LTV plus financed MIP. Conforming & Jumbo loan amounts

MAX LTV	CONF 96.5% LTV	CONF 90% LTV	HIGH BALANCE 96.5% LTV
MINIMUM FICO	580	560	600

- Based on the lesser of the sales price or appraised value.
- Minimum 560 FICO on conforming loan amounts, 600 FICO on high balance

No Cash-out Refinance (Full Doc & Qualifying)

The maximum mortgage for a no cash out refinancing with an appraisal (credit qualifying) is the *lesser* of:

- 97.75 LTV factor applied to the appraised value of the property, or
- Existing debt

The total FHA first mortgage loan amount, including financed UFMIP, is limited to 100% of the appraised value.

Cash Back: The borrower may not receive cash back in excess of \$500 at closing

Subordinate Liens: A subordinate lien, including a Home Equity Line of Credit (HELOC), regardless of when it was taken out, may remain outstanding (but subordinate to the FHA-insured mortgage), provided:

- The FHA insured mortgage meets the eligibility criteria for mortgages with secondary financing, and
- The combined amount of the FHA-insured mortgage and the entire subordinate lien does not exceed the applicable FHA LTV ratios

Note: The borrower must comply with any appraisal requirements, including repairs, before the mortgage is eligible for insurance endorsement.

Cash-out Refinance (Full Doc & Qualifying)

MAX LTV	CONF/High Balance 85% LTV	CONF 80% LTV	CONF 75% LTV	HIGH BALANCE 75% LTV
MIN FICO	620	600	560	600

- Value Determination: If the subject property has been the borrower's principal residence owned for:
 - **≥ 12 months from the application date:** Use the new appraised value
 - **< 12 months from the application date:** The *lesser* of the new appraised value or the sales price of the property when it was acquired.
- Borrowers with less than six months of payment history on current mortgage are not eligible for cash-out.
- Co-borrowers or co-signers being added to the note must occupy the subject property.
- Max CLTV 85% on loans with new and/or existing subordinate liens.

Streamline Refinance w/ out Appraisal Only (FHA to FHA. Non-Qualifying)

- 560 minimum credit score required for all streamline refinance loans.
- Case number cannot be generated until a minimum 210 days has elapsed since the last closing date
- At application, the borrower must have made at least 6 monthly payments on the mortgage being refinanced and the mortgage must be current.
- Mortgage history: 0x30 if < 12 months **OR** 1x30x12 if ≥ 12 months (0x30 required 3 months prior to application).
- A Net Tangible Benefit determination is required. (See next page for guidelines).
- Existing subordinate financing may remain in place. CLTV is capped at 125%.
- \$500 maximum cash back allowed for minor adjustments in estimated versus final closing costs.

Streamline Refinances Net Tangible Benefit Guidelines

	<u>TO</u>	Fixed Rate	One- Year ARM	Hybrid ARM
<u>FROM</u>				
Fixed Rate		Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate at least 2 percentage points below the current interest rate of the fixed rate mortgage (existing guidance)	Reduction of at least 5 percent of P&I and MIP (new guidance)
One-Year ARM		New interest rate no greater than 2 percentage points above the current interest rate of the ARM (existing guidance)	Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate at least 2 percentage points below the current interest rate of the ARM (existing guidance)
Hybrid ARM During Fixed Period		Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate at least 2 percentage points below the current interest rate of the ARM (existing guidance)	Reduction of at least 5 percent of P&I and MIP (new guidance)
Hybrid ARM During Adjustable Period		New interest rate no greater than 2 percentage points above the current interest rate of the ARM (existing guidance)	Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate at least 2 percentage points below the current interest rate of the ARM (existing guidance)

Short Refi / FHA Refinance of Borrowers in Negative Equity Positions

- 560 Minimum credit score required
- The borrower must be current on the existing mortgage to be refinanced
- All borrower(s) must occupy the subject property as their primary residence
- The borrower(s) must qualify for the new loan under standard FHA underwriting requirements
- The existing loan being refinanced may not be an FHA loan and the existing lien holder must write off at least 10% of the unpaid principle balance
- Existing subordinated mortgages must be re-subordinated and the new loan may not have a CLTV greater than 115%

To find more information on this program, visit the following link:

<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-23ml.pdf>

Loan / LTV Limits and Mortgage Insurance

Maximum Loan Amount

Maximum Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than the "floor" or greater than the "ceiling" as outlined in the table below.

Conforming and jumbo loan amounts are available. See FHA County loan limits link below.

A complete schedule of FHA mortgage limits by county is available at:

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

	# of Units	Floor	Ceiling - High Balance
Continental US	1 unit	\$271,050	\$729,750
	2 unit	\$347,000	\$934,200
	3 unit	\$419,425	\$1,129,250
	4 unit	\$521,250	\$1,403,400

- **Please note:** in Base loan amounts above \$417,000 is considered High Balance and have separate pricing. Base loan amount is not inclusive of UFMIP.

Loan Amount / LTV Limitations

PURCHASE		
Units	Maximum Base LTV	Maximum CLTV W/Sec Fin from Gov't Agency/Non-Profit considered an instrumentality of government
1 - 4	96.5%	100%
REFINANCES		
Units	Maximum Base LTV/Loan Amount	Maximum CLTV
Rate/Term Refinance		
1 - 4	97.75%	97.75%
Streamline Refinance Without Appraisal		
1 -	N/A	N/A
Cash Out Refinance		
1 - 4	85%	85%

Mortgage Insurance

- Mortgage Insurance is required on all loans. (Refer to the attached chart for details on UPMIP and monthly MIP)
- The section of the Act under which the loan will be insured determines the mortgage insurance to be used:
 1. **Sections 203b**
 - Up Front MIP (UFMIP) is required
 - Monthly MIP is required
 - Refer to the attached chart for details on UPMIP and monthly MIP

Monthly MIP and UFMIP Reference Chart

For Case Numbers Assigned on or after 04/18/2011					
Loan Term	LTV	Purchases & Full Credit Qualifying Refinances		Streamline Refinances	
		UFMIP	Monthly	UFMIP	Monthly
>15 years	> 95.00%	1.00%	1.15%	1.00%	1.15%
	≤ 95.00%	1.00%	1.10%	1.00%	1.10%
≤ 15 years	> 90.00%	1.00%	.50%	1.00%	.50%
	≤ 90.00%	1.00%	.25%	1.00%	.25%
	≤ 78.00%	1.00%	.00%	1.00%	.00%

Monthly MIP and UFMIP Reference Chart

For Case Numbers Assigned on or after 04/9/2012					
Loan Term	LTV	Purchases & Full Credit Qualifying Refinances		Streamline Refinances	
		UFMIP	Monthly	UFMIP	Monthly
>15 years	> 95.00%	1.75%	1.25%	1.75%	1.25%
	≤ 95.00%	1.75%	1.20%	1.75%	1.20%
≤ 15 years	> 90.00%	1.75%	.60%	1.75%	.60%
	≤ 90.00%	1.75%	.35%	1.75%	.35%
	≤ 78.00%	1.75%	.00%	1.75%	.00%

Monthly MIP and UFMIP Reference Chart

For Case Numbers Assigned on or after 6/11/2012 & Loan Amounts > \$625,500					
Loan Term	LTV	Purchases & Full Credit Qualifying Refinances		Streamline Refinances	
		UFMIP	Monthly	UFMIP	Monthly
>15 years	> 95.00%	1.75%	1.50%	1.75%	1.50%
	≤ 95.00%	1.75%	1.45%	1.75%	1.45%
≤ 15 years	> 90.00%	1.75%	.85%	1.75%	.85%
	≤ 90.00%	1.75%	.60%	1.75%	.60%
	≤ 78.00%	1.75%	.00%	1.75%	.00%

Monthly MIP and UFMIP Reference Chart

For SF Forward Streamline Case Numbers Assigned on or after 06/11/2012 & Loan Amounts ≤ \$625,500					
Loan Term	LTV	Existing FHA Loan Endorsed on or before May 31 st , 2009		Existing FHA Loan Endorsed after May 31 st , 2009	
		UFMIP	Monthly	UFMIP	Monthly
>15 years	> 95.00%	.01%	.55%	1.75%	1.25%
	≤ 95.00%	.01%	.55%	1.75%	1.20%
≤ 15 years	> 90.00%	.01%	.55%	1.75%	.60%
	≤ 90.00%	.01%	.55%	1.75%	.35%
	≤ 78.00%	.01%	.55%	1.75%	.00%

Monthly MIP and UFMIP Reference Chart

For SF Forward Streamline Case Numbers Assigned on or after 06/11/2012 & Loan Amounts > \$625,500					
Loan Term	LTV	Existing FHA Loan Endorsed on or before May 31 st , 2009		Existing FHA Loan Endorsed after May 31 st , 2009	
		UFMIP	Monthly	UFMIP	Monthly
>15 years	> 95.00%	.01%	.55%	1.75%	1.50%
	≤ 95.00%	.01%	.55%	1.75%	1.45%
≤ 15 years	> 90.00%	.01%	.55%	1.75%	.85%
	≤ 90.00%	.01%	.55%	1.75%	.60%
	≤ 78.00%	.01%	.55%	1.75%	.00%

Borrowers

Borrower Eligibility

All Borrowers

- Must have a valid social security number; any one of the following documents must be provided for verification:
 - Pay stub
 - W-2
 - Passport
 - Valid tax returns
- Must demonstrate 2 years of employment history.

Permanent Resident Aliens

- Same terms as US Citizens
- Evidence of lawful, permanent residency issued by the Bureau of Citizenship and Immigration Services (BCIS), formerly INS. Documentation requirement(s):
 - **Copy of the valid Alien Registration Receipt Card (Resident Alien card), I-551**

Non-Permanent Resident Aliens

- Only primary residence eligible for financing
- Borrower must be eligible to work in the U.S.
- Evidence of valid Social Security number required
- Evidence of residency and work status to be obtained through documentation from US Bureau of Citizenship and Immigration Services (BCIS), formerly INS. Documentation requirement(s):
 - **Copy of the Employment Authorization Card, I-688B.** This card carries an expiration date.
 - A social security card is not acceptable as evidence of work status.
 - If the card expires <1yr, a legible copy of the previously expired card(s)

Co-Borrower Eligibility

- Co-borrower does not have to occupy
- Co-borrower must take title to the property AND sign the Note and the Mortgage
- Co-signor does not take title to the property but must sign the loan application and the Note
- The co-borrower or co-signor cannot be the seller, builder, real estate agent, etc
- Loans involving **non-occupant co-borrowers** are subject to the following restrictions
 - **One unit** property if the LTV exceeds 75%
 - Co-borrower or co-signor must be a close family member or have a long-standing relationship with the borrower
 - If the co-borrower is unrelated or does not have a long-standing relationship with the borrower, the maximum LTV is 75%
 - If a parent is selling to a child, the parent cannot also be the co-borrower with the child unless the new mortgage LTV is 75% or less.
 - Income, assets and debts from all borrowers (including co-signors) are used in qualifying
- Co-borrower must have a principal residence in the US

Refer to HUD Handbook 4155.1 for details.

Income and Assets

Qualifying Ratios

Maximum debt ratio is determined with AUS approval with FICOs \geq 620. Loans must have an automated approval.

Loans with FICOs under 620:

- Max DTI of 50% regardless of AUS recommendation.
- 45% Max DTI when gift funds are used toward minimum investment requirement.
- 45% Max DTI when Payment Shock exceeds 65% of current housing payment.
- 45% Max DTI for First Time Home Buyers with no housing payment history.
-

Income Documentation

Wage Earner

- Salaried and hourly wages
 - W2s or VOs covering the most recent two-year history and most recent paystubs covering at least 30 days (reflecting the borrower's name, Social Security number and year-to-date gross earnings)
- Overtime and bonus
 - Both overtime and bonus income may be used to qualify if such income has been received for the past two years and it is expected to continue
 - An average of bonus or overtime income for the past two years must be developed, and the employment verification must indicate that such income is likely to continue
 - Less than two years may be acceptable if the underwriter justifies and documents the reason for using the income. In addition, an earnings trend must be established
- Part-time income
 - Part-time (second job) income may be used if the borrower has worked the part-time job uninterrupted for the past two years and will continue to do so
 - Income that has been received for less than two years may be included provided it can be determined that its continuance is likely. Must be determined to be stable and consistent.
 - Income from part-time positions not meeting these requirements should be considered as compensating factors but cannot be used as qualifying income
- Seasonal part-time income
 - Seasonal part-time employment (i.e., umpiring baseball games in summer; working at a department store during the Christmas shopping season) is considered uninterrupted and may be used in qualifying if the borrower has worked the same type of job for the past two years and expects to be rehired during the next season.
- Commission income
 - Commission income must be averaged over the previous two years, based upon signed tax returns and a recent paystub
 - Un-reimbursed business expenses must be subtracted from gross income
 - Individuals whose commission income shows a decrease from one year to the next require significant compensating factors to allow for loan approval
 - Borrowers with commission income received between one and two years may be considered favorably provided the underwriter is able to make a sound rationalization for acceptance and can document the likelihood of continuance
 - If it is sufficient, base salary without commission may be used to qualify
 - Commissions earned less than one year are not considered effective income
 - Exceptions may be made in those situations where the borrower's compensation was changed from a salary to commission within a similar position with the same employer

Self-Employed

A borrower with a 25% or greater ownership interest in a business is considered self-employed and additional documentation is required. 2 years tax returns and corporate or Partnership returns required. (1040, 1120, 1065). **If more than a calendar quarter has elapsed since the date of the most calendar or fiscal-year end tax return was filed by the borrower, a Profit & Loss statement, along with a Balance Sheet will be required. Additionally, if income used to qualify the borrower exceeds the two year average of the tax returns, an audited Profit & Loss Statement and Balance Sheet are required. (A signed quarterly tax return obtained from the IRS may be used in lieu of the audited statements)**

Non-Taxable Income

Examples of sources of income not subject to federal taxes

- Disability and public assistance payments
- Military allowances
- Child support
- The amount of continuing tax savings attributable to the non-taxable income source may be added to the borrower's gross income
- The adjustments made for any non-taxable income source must be documented and supported
 - Either the published IRS tax tables may be used for calculating the amount that may be "grossed up"
 - OR the tax rate of 25%
- The underwriter is responsible for justifying the amount used and ensuring the income is exempt from federal taxation. Additional documentation may be needed to verify portion of income that is non-taxable and eligible to be grossed up.

Assets

Borrower Investment

- Purchase Transactions with Maximum Financing - Sections 203b
 - Minimum down payment is 3.5% of the sale price or appraised value, whichever is less
 - The 3.5% cannot be met by borrower-paid closing costs, prepaid expenses, commitment fees or discount points or premium pricing. The minimum cash investment from the borrower must be 3.5% and can come from gift funds.
- Premium Pricing
 - Prepaid expenses and/or closing costs may be paid with premium pricing
 - Lender funded buydowns may be paid with premium pricing as long as reduction is limited to 2% below the note rate

Seller Contributions

- 6%
- Seller contributions limited to:
 - Buy down funds (if applicable)
 - Discount points
 - Seller-paid closing costs
 - Prepaid Expenses
 - UFMIP

Gifts

- Acceptable with gift letter and donor's ability must be sourced. Gift can come from family member or verifiable long term relationship, if non-family member. Family member is defined as a: parent, grandparent, or child (including son, daughter, stepson, stepdaughter, legally adopted child, and foster child)
- Gift given in the form of CASH is not acceptable
- Federal, State, local government agencies and FHA Approved non-profit agencies considered by FHA to be an instrumentality of the government may provide funds for down payment, closing costs and prepaid expenses
- Charitable organizations may provide gift funds for **down payment, closing costs and/or prepaid expenses**. Funds derived from these sources **cannot** be used to pay off borrowers' debts
 - Obtain Tax Identification Number for the charitable organization
 - Prior to loan underwriting approval, Pacific Union Financial must review the non-profit's gift documentation to ensure no repayment is required and no liens will be placed on the subject property as a result of the gift
- Refer to HUD Handbook 4155.1 Section 5 for details

Reserves

FICO SCORE	1-2 Units	3-4 Units
FICO 620+	SCORE CARD FINDINGS	3 MONTHS
FICO 580-619	2 MONTHS	3 MONTHS
FICO 560-579	4 MONTHS	4 MONTHS

Credit

Housing (Mortgage/Rental) Payment History (PITIA)

Mortgage / Rental history is only required when Scorecard findings require it or on loans with FICO scores below 620 and the underwriter deems it necessary to strengthen the borrower(s) credit profile.

Mortgage/Rental Payment History:

- No lates in past 12 months
- All derogatory credit in the past 24 months must be explained in writing
- No Foreclosures or Short Sales in past 3 yrs
- No BK 7 in past 2 yrs (from discharge)
- BK 13 can remain open with at least one full year of documented repayment history reflecting no lates **and** permission from court to enter into the mortgage.
- No open federal tax liens or judgments unless verification that payment plan is in place and paid satisfactory for the past 12 months

Non-Purchasing Spouses:

- Debts and obligations must be included in the borrower's qualifying ratios if located in a community property state
- Refer to the [Special Requirements / Restrictions](#) section and HUD Handbook 4155

Collections (Effective for all Case Numbers Assigned on or after April 1, 2012)

All Collections (including, but not limited to, medical and charge offs with balances) totaling an aggregate amount equal to or greater than \$1,000 must be paid in full at the time of, or prior to the close of escrow. If the total of all outstanding balances is less than \$1,000, the borrower is not required to pay off the collection accounts as a condition of the mortgage approval.

Pacific Union Financial continues to require judgments to be paid off prior to the close of escrow.

Disputed Accounts (Effective for all Case Numbers Assigned on or after April 1, 2012)

If the Automated Underwriting System using the TOTAL Mortgage Scorecard rates the mortgage loan application as an Accept, the mortgage application will no longer be downgraded to a manual underwrite, as long as the following to requirements are met:

- The total outstanding balance of all disputed credit accounts or collections are less than \$1,000, and
- All disputed credit accounts or collections are aged two years from the date of the last activity as indicated on the most recent credit report

If the borrower has individual or multiple disputed credit accounts or collections with singular or cumulative balances equal to or greater than \$1,000, the accounts must be paid in full, prior to, or at the time of closing and the loan downgraded to a manual underwrite.

Disputed credit accounts or collections resulting from identity theft, credit card theft, or unauthorized use, will only be excluded from the \$1,000 if the following documentation is provided:

- A letter from the creditor acknowledging the dispute due to fraudulent charges, and
- A copy of the identity theft/police report for the fraudulent charges

Collateral

FLIP Rule

- Minimum Fico 560
- 560-659 Pricing: Portfolio rate sheet. Program G30 FLP
- Fico 660+ Pricing: Standard FHA rate sheet. Program code F30 FLP

The extension announced is effective through December 31, 2012, unless otherwise extended or withdrawn by FHA. All other terms of the waiver will remain the same, and HUD continues to invite public comment on it. The waiver contains strict conditions and guidelines to assure that predatory practices are not allowed.

To protect FHA borrowers against predatory practices of "flipping" where properties are quickly resold at inflated prices to unsuspecting borrowers, this waiver continues to be limited to those sales meeting the following general conditions:

- All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction.
- In cases in which the sales price of the property is 20 percent or more above the seller's acquisition cost, the waiver will only apply if the lender meets specific conditions
 - A 2nd appraisal is ordered thru Pacific Union Financial
 - The appraiser provides a detailed list of improvements made to the subject property since it was last acquired
 - The seller provides evidence of the increase in value thru sufficient renovation, repair, and/or rehabilitation
 - The property was marketed openly and fairly via MLS, auction, FSBO or developer marketing

- o A property inspection report is ordered thru Pacific Union Financial



FHA SUB 640 FICO	DU ACCEPT REQUIRED
PORTFOLIO PRODUCT	
PRICING	See Portfolio Pricing on Rate Sheet
OVERLAYS: The following overlays apply ONLY to FICOs < 620	
CREDIT	MINIMUM FICO 560
	ALL BORROWERS MUST HAVE TRADITIONAL CREDIT AND AT LEAST 1 VALID CREDIT SCORE
	SHORT SALES: MINIMUM 3 YEARS HAVE ELAPSED
	BANKRUPTCY: FOLLOW STANDARD HUD BK GUIDELINES
LTV	FICOs < 580 MAX LTV IS 90% (see overlays for cash out below)
	FICOs >579 FOLLOW STANDARD HUD GUIDELINES
DTI	MAX DTI: 50% REGARDLESS OF AUS RECOMMENDATION
	45% MAX DTI WHEN GIFT FUNDS ARE USED
	45% MAX DTI WHEN PAYMENT SHOCK EXCEEDS 65% OF CURRENT HOUSING EXPENSE
	45% MAX DTI FOR FIRST TIME HOME BUYERS WITH NO HOUSING PAYMENT HISTORY
RESERVES	FICO ≥ 580 2 MONTHS REGARDLESS OF AUS APPROVAL
	FICO < 580 4 MONTHS REGARDLESS OF AUS APPROVAL
CO-BORROWERS	NON-OCCUPANT CO-BORROWERS PERMITTED WITH ADDITIONAL RESERVES
	FICO < 600: 2 MONTHS RESERVES FOR BOTH PRINCIPLE RESIDENCES
PROPERTY	PROPERTY ISSUES
	APPROVED FHA CONDOS ONLY. NEW CONDO APPROVALS WILL NOT BE ACCEPTED
	FIRST TIME HOME BUYERS 3-4 UNIT PROPERTIES: RENTAL INCOME FROM ONLY ONE UNIT MAY BE USED TO QUALIFY
CASH OUT	FICO ≥ 600 MAXIMUM 80% LTV
	FICO < 600 MAXIMUM 75% LTV
HIGH BALANCE	45% MAX DTI
	MINIMUM 3 YEAR JOB TENURE WITH SAME EMPLOYER REQUIRED
	MINIMUM 600 FICO SCORE
EXCEPTIONS	EXCEPTIONS TO THE OVERLAYS LISTED ABOVE CAN BE MADE WITH STRONG COMPENSATING FACTORS