

# Product Guidelines

## FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



PURCHASE			
Maximum LTV*	Max Loan Amount	Max Ratios	Mortgage/Rental History
MINIMUM FICO 500			
90.00%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	AUS Accept: Per AUS; Manual: 31%/43%	Evaluated by AUS***
MINIMUM FICO 580			
96.50%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	AUS Accept: Per AUS; Manual: 31%/43%**	Evaluated by AUS***
*The maximum LTV on a Purchase transaction is 96.5% of the LESSER of 110% of the after improved value or the sum of the adjusted 'as is' appraised value or sales price (whichever is less) plus the total cost of all rehabilitation/repairs. (100% for condos)			
**DTI may exceed 31%/43% with compensating factors documented in the file and manual underwrite. Refer to Manual Underwrite section for additional information.			
***Refer to mortgage rating section below for additional information			
RATE/TERM REFINANCE			
Maximum LTV	Max Loan Amount	Max Ratios	Mortgage/Rental History
MINIMUM FICO 500			
90.00%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	AUS Accept: Per AUS; Manual: 31%/43%	Evaluated by AUS***
MINIMUM FICO 580			
97.75%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	AUS Accept: Per AUS; Manual: 31%/43%**	Evaluated by AUS***
*The maximum LTV on a refinance transaction is 97.75% of the LESSER of the sum of the existing mortgage debt + total rehabilitation costs + borrower paid closing costs + prepaids + discount on total loan amount - discount on repair costs - FHA MIP refund OR the lessor of the sum of the adjusted 'as is' value + the total rehabilitation/repairs costs or 110% of the after improved value. (100% for condos)			
**DTI may exceed 31%/43% with compensating factors documented in the file and manual underwrite. Refer to Manual Underwrite section for additional information.			
***Refer to mortgage rating section below for additional information			

# Product Guidelines

## FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



REFINANCE OF RECENTLY ACQUIRED FREE & CLEAR PROPERTY*				
Maximum LTV	Max Loan Amount	Max Ratios		Mortgage/Rental History
<b>MINIMUM FICO 500</b>				
85%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	AUS Accept: Per AUS; Manual: 31%/43%		Evaluated by AUS***
<b>MINIMUM FICO 580</b>				
85%*	Per FHA Max County Limits. See Loan Amount Matrix Below.	AUS Accept: Per AUS; Manual: 31%/43%**		Evaluated by AUS***
<p>*Refinance of Free and Clear allowed if within 6 months of purchase. LTV based on lesser of acquisition cost or appraised value to maximum 85% LTV. Borrower must prove occupancy of subject property within 30 days of original closing, document, and source funds used for down payment. Any assets sourced as gift funds will be subtracted from acquisition cost and maximum loan amount. No cash back allowed.</p> <p>**DTI may exceed 31%/43% with compensating factors documented in the file and manual underwrite. Refer to Manual Underwrite section for additional information.</p> <p>***Refer to mortgage rating section below for additional information.</p>				
<b>All underwriting, docs, and funding must be completed in either Santa Ana or Enfield ROC's.</b>				
<b>Underwriting Guidelines Requirements (All loan amounts must be submitted through FHA's Total Score Card)</b>				
MAXIMUM LOAN AMOUNTS				
	# of Units	Lowest Maximum ("Floor")	Highest Maximum ("Ceiling") Conforming	Highest Maximum ("Ceiling") for High Balance
Continental U.S.	1 Unit	\$331,760	\$510,400	\$765,600
	2 Units	\$424,800	\$653,550	\$980,325
	3 Units	\$513,450	\$789,950	\$1,184,925
	4 Units	\$638,100	\$981,700	\$1,472,550
Maximum Loan Amt (Base)	Max 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 4155.1.			

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### COLLATERAL

<p>Appraisal Requirements</p>	<p>The Limited (k) program may be used for discretionary repairs and/or improvements that may not have been identified in the course of a pre-purchase inspection or appraisal. Unless the property is subject to flipping rules, second appraisal should be "as-is."</p> <p>Update: ACQ &gt; 12 months "as-is" value only required if existing debt and rehab exceeds the after improved value. ACQ &lt; 12 then "as-is" value is always required.</p> <p>The appraiser must receive all cost estimates so that an after-improved value can be estimated. A description of the proposed repairs and/or improvement must be included in the appraisal report as well as the contractor's cost estimate. The appraiser is to comment whether or not the cost of the work to be performed is in line with the cost of similar work performed in the subject's immediate area. In addition, the appraiser must indicate in the reconciliation section of the appraisal report an after-improved value subject to completion of the proposed repairs and/or improvements. The 3rd box ("subject to the following repairs...") on the appraisal should be checked off by the appraiser.</p> <p>HPML loans may require second appraisal.</p>
<p>HUD REO Appraisal and Property Requirements</p>	<p>Appraisals may only be performed by an appraiser listed on the FHA roster. HUD's REO appraisal may be available at no charge. If the original HUD REO appraisal is available, a new appraisal may not be ordered when the sales price exceeds the "as-is" value specified on the M&amp;M's appraisal. If the M&amp;M Contractor's appraisal is more than 120 days old, the lender may order an updated appraisal. The original appraisal must be used if a valid sales contract was executed prior to the expiration date of the appraisal. A second appraisal may only be ordered under the following circumstances: if the current HUD REO appraisal has expired, if there are material deficiencies with the current appraisal as determined by the DE Underwriter, or the original HUD REO appraisal is not made available by the M&amp;M Contractor. Refer to HUD REO appraisal requirements listed below.</p> <p><b>Note:</b> The case # on the HUD M&amp;M appraisal should not be changed if the original HUD REO appraisal was used.</p>
<p>HUD REO Appraisal Requirements - If Original HUD REO Appraisal is not Available</p>	<p>If the "as-is" value is not available or disclosed, the lesser of the contract sales price or initial list price may be used to determine the "as-is" value. The statement of insurability is required and the appraisal must be marked as one of the following "insurable", "insurable with repairs", or "uninsurable". The Property Condition Report (PCR) must be provided to the appraiser prior to inspection. In addition, the Listing History must be included in the file with the original list price. The property listing may be located at: <a href="http://www.HUD.GOV/hudhomes">http://www.HUD.GOV/hudhomes</a>. If the listing history is not present, the M&amp;M Contractor may provide. The sales contract must indicate 203K financing.</p>
<p>HUD REO Lead-Based Paint Appraisal Requirements</p>	<p>HUD will complete a lead-based inspection on properties built before 1978 and provide a cost estimate of the repairs. If lead-based paint was identified, HUD will provide a credit if there is cost to repair. The credit amount is accounted for on Line C4 of the 92700 as a negative adjustment. Any cost to repair must be documented. Contractors who perform the repair must be certified and must follow specific work practices to prevent lead contamination. If lead-based paint was identified and required repair, a copy of the EPA or state-lead training certificate in the name of the party who performed the work must be provided.</p> <p>A copy of the EPA or state-lead training certificate is not required if no lead-based paint issue was identified or when the subject property was painted for cosmetic purposes.</p>

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### COLLATERAL (continued)

Final Inspections / Certificate of Occupancy	<p>A final inspection to determine that all listed repairs and/or renovations were satisfactorily completed is required regardless of the amount borrowed for the repairs or rehabilitation. If a Certificate of Occupancy (C/O) is required from the local building department, CMS will require the C/O be issued prior to closing. If the local building department has issued a Temporary Certificate of Occupancy (T/C/O), CMS will close the loan with the following:</p> <ol style="list-style-type: none"> <li>1. The requirements from the town may not be a safety concern of CMS underwriter;</li> <li>2. All town requirements are addressed in the final contract between the mortgagor and their contractor;</li> <li>3. All items on the contract are completed, including all town requirements for the C/O, and a final C/O is issued before the final payment to the contractor is made; and</li> <li>4. In the underwriter's opinion, all items must be able to be completed within 30 days of closing.</li> </ol>
Eligible Properties	<p>Owner Occupied Only. 1-4 Units. PUD's, FHA approved condominium projects, HUD Owned Properties, mixed-use properties where a minimum of 51 percent of the entire building square footage is for residential use; and the commercial use will not affect the health and safety of the occupants of the residential Property. Manufactured homes (minimum double-wide. Limited repairs to cure a deficiency only - capped at \$10,000. For example a correction/addition of continuous perimeter (skirting) to enclose foundation.)</p>
Ineligible Properties	<p>Second homes, investment properties, condotels, leaseholds, timeshares, properties encumbered with Property Assessed Clean Energy (PACE) or Home Energy Renovation Opportunity (HERO) obligations, State-approved medical marijuana producing properties, homes that have never been completed, homes that have been completely demolished, properties on stilts, posts, or piers, mobile homes, single-wide manufactured homes, co-ops, commercial or industrial zoned properties, working farms, construction to permanent, unique properties such as log homes, berm homes, properties located in the area of Wrightwood, CA, properties located within designated Coastal Barrier Resource System (BRS) areas, properties located on Tribal Lands which include section 248, Hawaiian properties in Lava Zones 1 and 2, Native Hawaiian Housing Loan Guarantee Program (Section 184A), Hawaiian Home Land (Section 247), properties with sink holes, properties with a wastewater stabilization pond/lagoon (aka sewage lagoon), properties with individual water purification systems required to make the water safe for human consumption (does not include systems installed to improve the taste or softness of the water), and/or any other ineligible properties as defined by HUD Handbook 4000.1.</p>
Condos	<p>Rehabilitation is limited only to the interior of the unit. The maximum mortgage amount cannot exceed 100% of the after-improved value. Must be current FHA-approved condominium complex and meet all HUD requirements (51% occupancy, 15% delinquencies). All condos and attached PUD's require 100% 'walls-in' HO6 coverage. Site condos do not require FHA HRAP/DELRAP approval. Only the lesser of 5 units per condominium association, or 25% of the total number of units, can be undergoing rehabilitation at any time. The subject property building may not contain more than 4 units. However, the condo project may consist of more than 4 units. Refer to the CMS FHA Underwriting Guidelines for more detail.</p>

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### COLLATERAL (continued)

Manufactured Housing	CMS accepts manufactured homes permanently affixed to the foundation, built on or after June 15, 1976, and meet all HUD requirements. Single-wide manufactured homes are not eligible. Manufactured homes with acceptable alterations or additions must have marketability, “like” comparables, gross living area (GLA) of addition must be smaller than the original home and structural engineer’s certificate required. A manufactured home with an additional manufactured home of the property is permitted when the second manufactured home is used as a storage building, the kitchen is rendered inoperable and the utilities are disconnected. An engineer’s certification is always required to verify the foundation complies with the Permanent Foundations Guide for Manufactured Housing (PFGMH). The engineer certificate must also address additions/modifications when additions/modifications are present. Follow HUD requirements. Refer to the CMS FHA Underwriting Guidelines for additional details regarding manufactured housing.
Eligible Repairs/Improvements	Property must be habitable at time of closing. Borrower must occupy within 30 days and all work must be completed within 60 days of closing. Eligible improvement types include, but are not limited to: eliminating health and safety hazards that would violate HUD’s MPR; repairing or replacing wells and/or septic systems; connecting to public water and sewage systems; repairing/replacing plumbing, heating, AC and electrical systems; making changes for improved functions and modernization; eliminating obsolescence; repairing or installing new roofing, provided the structural integrity of the Structure will not be impacted by the work being performed; siding; gutters; and downspouts; making energy conservation improvements; creating accessibility for persons with disabilities; installing or repairing fences, walkways, and driveways; installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven and washer/dryer; repairing or removing an in-ground swimming pool; installing smoke detectors; installing, replacing or repairing exterior decks, patios, and porches (must increase the As-Is Property Value equal to the dollar amount spent on the improvements.; and covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and EPA’s Renovation, Repair, and Painting Rule.
Ineligible Improvements	Any repairs that will exceed 60 days or result in work not starting within 30 days after loan closing, including weather related delays. <ul style="list-style-type: none"><li>• Major rehabilitation or major remodeling, such as the relocation of a load-bearing wall</li><li>• New construction (including room additions)</li><li>• Conversion of SFR to units or vice versa</li><li>• Repair of structural damage</li><li>• Repairs requiring detailed drawings or architectural exhibits</li><li>• Landscaping or similar site amenity improvements</li><li>• Any repair or improvement requiring a work schedule longer than 6 months</li><li>• Rehabilitation activities that require more than 2 payments per specialized contractor</li><li>• Any repair that is deemed a luxury item</li><li>• Any repair that will affect the use of property such as a commercial grade kitchen</li><li>• Improvements that are not considered permanent</li></ul>

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### COLLATERAL (continued)

Contractor requirements & Self-help	The contractor's licensing and bonding must meet all state and local requirements. If the repairs require more than one contractor, the services of a duly licensed and bonded general contractor must be utilized. The general contractor will be under the contractual obligation for the entire work to be performed from start to finish. The general contractor is responsible for hiring the different trades required to complete all of the work. "Self-help" arrangements, in which the mortgagor performs the work, will not be approved.
Requirement of Home Inspection	A complete home inspection is required for all REO and vacant properties.
Defective Paint Surfaces	<p>An automatic correction is required to all defective paint surfaces in or on structures and/or property improvements built before January 1, 1978. Contractors who perform the repair must be certified and must follow specific work practices to prevent lead contamination. A copy of the EPA or state-lead training certificate in the name of the party who performed the work must be provided.</p> <p>HUD REO properties built prior to 1978 must be tested for lead-based paint. CMS must obtain a copy of the lead-based inspection report and findings from HUD's Asset Manager. The borrower must resolve with a State or EPA contractor to mitigate lead paint surfaces specified in HUD's report.</p>
Requirements for reviewing the contractor and the rehabilitation proposal	<p>CMS will review the mortgagor's proposed work plan and cost estimates to ensure the planned work meets all program and repair recommendations as noted on the appraisal report. The mortgagor must provide CMS with a written cost estimate. All repairs and improvements must meet any and all local codes and ordinances as evidenced by a permit issued by the local authority, if applicable. The mortgagor and/or contractor must obtain all required permits prior to closing. If a required permit may not be obtained prior to closing, the contractor may not receive an initial draw at closing. Once the permit is obtained, the borrower and contractor may contact <a href="mailto:escrowaccountservicing@carringtonms.com">escrowaccountservicing@carringtonms.com</a> to request and process the initial materials draw.</p> <p>The submitted cost estimates must clearly state the type of repair and the cost for completion of the work items. CMS will review and verify the contractor's credentials and work experience and may require the mortgagor to provide additional cost estimates from other licensed and bonded contractors if necessary. CMS reserves the right to decline the use of a specific contractor at its sole discretion. The selected contractor must agree in writing to complete the work for the amount of the cost estimate and must agree to complete all work in a professional and satisfactory manner within 60 days of closing. A copy of the contractor's cost estimates and executed Homeowner/Contractor agreement must be received by CMS prior to closing.</p>
Required Completion Time for Repairs	The contractor must finish the work in accordance with the written estimate and Homeowner/Contractor agreement within 60 days. If the work is not completed within 60 days of closing, a principal reduction will be made towards the remaining unpaid balance of the mortgage.

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### COLLATERAL (continued)

Disbursements made to Contractors/Borrowers	No more than 2 payments may be disbursed to the contractor. The borrower must obtain all licenses, permits and HOA approvals required prior to any draw release. The 1st payment is made at the initial funding of the loan and is intended to defray material costs and shall not be more than 50% of the estimated costs of all repairs/improvements. The final disbursement will be made following completion of all work and release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all subcontractors or suppliers who could file a legal claim. Before a final disbursement is made, the borrower must sign a statement acknowledging that the work has been completed in a professional and satisfactory manner. In addition, prior to the release of the final disbursement, a final inspection from the appraiser must be received by CMS verifying that the work has been completed in accordance with the approved estimates and appraiser's requirements. A title update is required prior to final disbursement confirming all liens have been released.
Contingency Reserve	CMS requires a contingency reserve of 15%, of all repairs or rehabilitation expenses. Funds held back in contingency reserve must be used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items. Any unspent funds remaining after the final work item payments are made, must be applied to the mortgage principal.
Minimum and Maximum Amounts for Repair Costs	The minimum total repair costs, including contingency reserves and costs, are \$5,000. The maximum total repair costs, including the contingency reserve and costs, are \$35,000 subject to a maximum loan to value as listed above. CMS requires 15% for contingency costs. In the event total repair costs, contingency reserve costs and fees exceed \$35,000, the loan will not be eligible for the 203K Limited program.
Maximum Mortgage Amount Worksheet	The applicable 203(k) Maximum Mortgage Worksheet must be used to calculate the mortgage amount. Expenses that may be included in the total amount of improvements, not to exceed the \$35,000 limit, are inspection fees, building and other permits, final inspection costs, supplemental origination fee and the amount of the contingency reserve required by CMS.
FHA Flips	Resales <= 90 days are ineligible. Flips must be 91 days or greater to be eligible. CMS requires a second Full FHA appraisal by another appraiser if the resale date of a property is between 91 and 180 days following the acquisition of the property by the seller and the resale price is 100 percent or more over the price paid by the seller to acquire the property. The second appraisal must be completed "as-is." Seasoning is determined by Seller Acquisition Date & earlier of final Contract Acceptance Date or Application Date. All flips require a 12 month chain of title, contain no pattern of previous flipping or assignment of interest & evidence the property was marketed openly & fairly is required. HPML loans may require second appraisal.

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### CREDIT

Bankruptcy	<p>AUS Approve - must be &gt; 2 years since date of discharge and borrower must have re-established good credit, or chosen not to incur new credit obligations.</p> <p>Manual - Chapter 7 If &lt; 2 years, but not &lt; 12 months, may be acceptable, if borrower can show that bankruptcy was caused by extenuating circumstances (must be approved by Underwriter Manager or Team Lead), and has exhibited a documented ability to manage his/her financial affairs.</p> <p>Chapter 13 must document the following:</p> <ol style="list-style-type: none"> <li>1. 1 year of the pay-out period under the bankruptcy has elapsed.</li> <li>2. All borrowers' payments have been made on time.</li> <li>3. Borrower has received written permission from court to enter into mortgage transaction.</li> </ol>
Consumer Credit Counseling	1 year of the pay-out has elapsed under the plan, borrower's payment performance has been satisfactory with all required payments made timely, and borrower has received written permission from the counseling agency to enter into the mortgage transaction.
Social Security Numbers	Required for ALL borrowers and must be validated for non-borrowing spouse or registered domestic partner in Community Property States. See Guidelines.
Collections	AUS Approve/Eligible - The Underwriter must complete a capacity analysis off collection accounts with an aggregate balance $\geq$ \$2,000. Non-purchasing spouse's or registered domestic partner's collections are included in the combined balances for community property states. Monthly payments must be included in the DTI when cumulative balances are $\geq$ \$2,000. Manually underwritten loans, in addition to the requirements above, the reason for approving a loan when the borrower has collection accounts regardless of the amount must be documented. The Underwriter must determine if the collection was result of disregard for financial obligations, inability to manage debt, or extenuating circumstances. The borrower must provide a letter of explanation with supporting documentation for each outstanding collection.
Charge Offs	Refer to Guidelines.
Capacity Analysis for Collections	<p>Outstanding Collections with aggregate \$2,000 or more:</p> <ul style="list-style-type: none"> <li>• Prior to closing, the collection account is paid in full. Verification of acceptable sources of funds is required.</li> <li>• Payment arrangements have been made with the creditor. The monthly payment must be included in the DTI and documentation is required.</li> <li>• 5% of the outstanding balance of each collection will be used as the monthly payment and will be included in the DTI.</li> </ul>



## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### CREDIT (continued)

Judgments/Liens	<p>All outstanding judgments and liens must be paid prior to or at closing except when the borrower has an agreement with the creditor to make regular and timely payments. Copy of the agreement and the borrower is required to have made a minimum of 3 monthly scheduled payments prior to Case #. This includes non-purchasing spouses and registered domestic partners in community property states. Borrowers may not prepay scheduled payments in order to meet the minimum monthly requirement. Payment is included in the DTI.</p> <p>Manually underwritten loans, in addition to the requirements above the reason for approving a loan when the borrower has judgment(s) regardless of the amount must be documented. The Underwriter must determine if the judgment was result of disregard for financial obligations, inability to manage debt, or extenuating circumstances. The borrower must provide a letter of explanation with supporting documentation for each outstanding judgment.</p>
Foreclosure / Deed-in-lieu	<p>Must be &gt; 3yrs from date of trustee's deed or FHA claim (CAIVRS-if applicable). This is measured from the recording date finalizing the foreclosure or the date the FHA claim was paid to the application date of the subject transaction. Borrower(s) with prior CMS Foreclosure or Deed in Lieu are not permitted at the time of Case # assignment.</p>
Short Sale	<p>A borrower is not eligible for a new FHA insured mortgage if a short sale was pursued to take advantage of declining market conditions and purchase a similar or superior property within reasonable commuting distance of prior residence. A borrower in default at time of short sale/restructure or pre-foreclosure is not eligible for a new FHA insured mortgage for 3 years from date of pre-foreclosure sale to Case # assignment.</p> <p>Manual UW Only: Borrower's current at time of short sale must have 0x30 mortgage and installment debt pay history for the preceding 12-month period. Borrower(s) with prior CMS Short Sale are not permitted.</p>
Disputed Accounts	<p>Disputed derogatory accounts <math>\geq</math> \$1,000 cumulative must be downgraded to "Refer" manual underwrite. Medical and accounts resulting from identity and credit card theft or unauthorized use are excluded. A letter from the creditor, police report, etc. is required.</p> <p>Disputed non-derogatory accounts are excluded from the \$1000 cumulative total which includes accounts with zero balance, accounts with late payments aged 24 months or older, or disputed accounts that are current and paid as agreed.</p>
Modifications	<p>AUS – follow findings for acceptable mortgage history.</p> <p>Manual Underwrite – follow manual mortgage requirements (0x30 for most recent 12 months and 2x30 for the most recent 24 months on the modified mortgage.)</p> <p>Payment history is evaluated based upon the modification agreement terms and date. Delinquent payment history is forgiven prior to the modification agreement. If the modification agreement is dated less than 12 months, all payments must be made current for the month due since the date of the modification.</p>
FICO	<p>Minimum of 2 reported credit score required. All borrowers must have credit scores. Non-traditional credit not permitted.</p>
Minimum Payment	<p>If no payment is indicated, 5% for revolving accounts.</p>

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### CREDIT (continued)

Student Loan Payments	Student loan(s) would be calculated as follows, regardless of the payment status. CMS must use either the greater of: 1% of the outstanding balance on the loan; or the monthly payment reported on the borrower's credit report; or the actual documented payment, provided the payment will fully amortize the loan over its term.
Minimum Tradelines	Borrowers must have sufficient credit history to generate a valid FICO score. Generally, an acceptable credit history does not have late housing, installment debt or major derogatory revolving payments. Authorized tradelines are not acceptable for establishing a credit history and may invalidate the FICO score.
Non-Traditional Credit	Not permitted.
Mortgage/Rental History*	PER AUS approved/accept for FICO > 580. 0x30 in previous 12 months for FICO 500-579 and all manually underwritten loans. Seasoning is measured to case number assignment.
Non-Purchasing Spouse	Credit report required for non-purchasing spouse or registered domestic partner in community property states. Debts must be added to DTI Ratio and Credit History must not be considered. Non-purchasing spouse may be added to title on a purchase transaction or may remain on title when refinancing. No other party other than the borrower or their spouse may be permitted to have a vested interest to the property.
Other Requirements	NSF activity, private mortgage lates, delinquent CAIVRS, LDP or GSA findings, mortgage lates not reporting on the credit bureau, significant delinquencies after bankruptcy, and any other credit delinquencies will supersede any "approved/eligible" finding.

#### INCOME/ASSETS

Debt Ratio	Loans with AUS Approve/Eligible - follow AUS decision. Credit scores of 640 and under and DTI greater than 43% regardless of AUS decision require explanation for derogatory credit and a VOR or rent free letter (if applicable). Manually underwritten loans with FICO score > 580 may exceed 31%/43% ratios with acceptable compensating factors (Energy Efficient Homes, Verified and Documented Cash Reserves, Minimal Increase in Housing Payment, No Discretionary Debt, Significant Additional and Income Not Reflected in Effective Income and Residual Income) Refer to the CMS Underwriting Guidelines for applicability. Manually underwritten loans with FICO score 500 - 579 or non-traditional credit may not exceed 31%/43% ratios regardless of compensating factors. Refer to CMS Underwriting Guidelines for maximum ratios for manually underwritten loans.
Manual Underwriting	Permitted, loans receiving a Refer/Eligible may be eligible for downgrade to a manual underwrite. Manually underwritten loan must follow standard FHA guidelines as outlined in CMS FHA Lending Guide. Documentation waivers are not acceptable on manually underwritten loans. All manually underwritten loans require compensating factors supporting loan decision and 2 years of signed tax returns. Refer to CMS Lending Guide for maximum ratios for manually underwritten loans. All manual underwrites require an AUS to be run and "refer eligible" findings uploaded into the LOS. The AUS findings must be uploaded even when the Underwriter knows the loan will be manually underwritten upfront or the loan will be downgraded to a manual underwrite.

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



INCOME/ASSETS (continued)	
Non-Taxable Income	Nontaxable income such as Social Security, Pension, Workers Comp and Disability Retirement income may be grossed up.
Income	All types of income must have been received for the most recent two consecutive years including overtime, bonus, second job, part-time, commission, and self-employment.
Unacceptable Sources of Income	The following income sources are not acceptable for purposes of qualifying the borrower: Any unverified source of income, Income determined to be temporary or one-time in nature, Retained earnings in a company, Stock options, Trailing spouse income, VA education benefits (GI Bill), Income derived from State approved marijuana dispensary.
Assets	Minimum cash investment from borrowers own funds and/or gift (no cash on hand allowed).
Unacceptable Sources of Assets	Retained earnings in a company, stock options, assets derived from State approved marijuana dispensary, VA education benefits (GI Bill), student loans and/or grant funds, employer tuition reimbursements, unsecured borrowed funds, cash on hand, welfare benefits and Section 8 Voucher Assistance.
Gifts	Gifts cannot be used as reserves for manual underwrites.
Documentation/4506T or 2907 Puerto Rico Tax Returns	Full income documentation loans only. <b>All borrowers must sign IRS Form 4506T at closing. Underwriting may require processed IRS transcripts at their discretion prior to closing under circumstances such as verifying recently-filed tax returns used for qualifying, the filing of amended tax returns, or to resolve inconsistencies with income documentation.</b> Borrowers with income from Puerto Rico must: Sign form Modelo SC 2907 to obtain tax transcripts, returned Modelo SC 2903 transcripts for 2 years, and transcripts must be translated to English and notarized by 3rd party. The 4506T must be in the file with confirmation that states "no records found" when using Puerto Rico tax returns. The confirmation must be from the IRS website and contain the borrowers name and SSN.
Minimum Reserves	AUS: 1-2 Units: None. 3-4 Units: 3 Mos. PITI. On 3-4 units AUS will apply gift funds to the down payment. Manually Underwritten Loans: 1-2 Units: 1 Month. 3-4 Units: 3 Months.
2-4 Units/Rental Income	Proposed rents on 2-4 unit properties used to qualify require 2 months PITIA.
Non-Occupant co borrower	Permitted

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### TYPES OF FINANCING

Rate Term Refinance	Only real liens tied to property may be paid off through refinance. Pay off of personal liens is not allowed. If the borrower has owned the property for less than 1 year, the acquisition cost must be used to determine the maximum mortgage amount.
Cash-out Refinance	Not permitted. Rate and term only.
Adding Borrowers	Adding occupying borrowers is allowed if currently occupying subject as primary residence for previous 6 months.
Buyer Contribution	Minimum investment of 3.5% required. The required 3.5% down payment is calculated off of the total of the sales price plus all rehab costs, not just the sales price. All down payment funds and cash to close must be documented and verified. Maximum Loan Calculations Maximum Loan Amount based on the applicable Maximum Mortgage worksheet Purchases - the maximum allowed LTV is the lesser of: <ul style="list-style-type: none"> <li>• 96.5% of 110% after improved value</li> <li>• 96.5% of the adjusted "as is" value and rehab</li> </ul>
Seller Contribution	Max contributions limited to 6%. Contributions include (not limited to): Discount, Closing Costs, Prepays and Up Front MIP. Financed closing costs may not be paid by seller contributions.

#### GENERAL

Ineligible	Escrow waivers and escrow holdbacks. HUD REO with repair escrow and HUD \$100 Down Payment, Energy Efficient Mortgage, Good Neighbor Next Door, Mortgage Credit Certificate (MCC), borrowers with extenuating circumstances due to an Economic Event, Homes for Heroes, Heroes Home Advantage
Borrower Eligibility	In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria outlined in the CMS FHA Underwriting Guidelines. Ineligible Borrowers: Individuals convicted of previous financial crimes, non-U.S. citizens without lawful residency in the U.S, individuals with Deferred Action for Childhood Arrivals (DACA) status, borrowers with delinquent Federal non-tax debt, and all non-individual legal entities such as Corporations, General Partnerships, Limited Partnerships, Real Estate Syndications, Investment Trusts, Trusts (including Inter-vivos and Living Trusts) and Limited Liability Company (LLC). Refer to the CMS FHA Underwriting Guidelines for additional requirements regarding borrower eligibility.
Subordinate Financing	Not permitted.
Down Payment Assistance	Down Payment Assistance programs are not permitted on 203k Limited loans.
Loan Terms Available	30 Year Fixed
Qualifying Fixed Products	Qualify at Note Rate

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### GENERAL (continued)

State Specific - Texas	<p>A 10% statutory retainage should be withheld from each advance to cover any claim notices from subcontractors or suppliers. The entire retainage, representing 10% of construction costs, will be retained for 30 days after final completion. Additional monies requested for cost overruns and upgrades are secured under the builder's contract only if they are evidenced by change orders signed by both parties.</p> <p>Subject property must be a Texas homestead.</p>
State Specific - West Virginia	<p>Maximum LTV/CLTV is 100% for properties in West Virginia. This maximum applies to all programs that otherwise allow LTV/CLTV to exceed 100%</p>
Additional Costs	<ul style="list-style-type: none"> <li>• Final Inspection Fee \$200</li> <li>• Initial Appraisal \$460-\$645 (range)</li> <li>• Home Inspection Fee</li> <li>• Title Update Fee \$150</li> </ul>
Special Forms/Documents	<ul style="list-style-type: none"> <li>• HUD 92700: Maximum Mortgage Worksheet</li> <li>• HUD 92700-A: 203K Borrower Acknowledgement</li> <li>• Borrower's Identity of Interest Certification</li> <li>• FHA Rehabilitation Loan Agreement</li> <li>• FHA Homeowner/Contractor Agreement with bids/cost estimates</li> <li>• FHA Notice to Borrower Regarding Rehabilitation</li> <li>• FHA Rehabilitation Escrow Account &amp; Fees Acknowledgment</li> <li>• Rehabilitation Rider (Modified Security Agreement)</li> <li>• Contractor Reference, Work History, Evidence of license and bonding, W-9</li> <li>• Mortgagor's Letter of Completion (completed by borrower)</li> </ul>
Identity-of-Interest	<p>The borrower may not have a relationship with any party to the transaction including contractor, loan officer, real estate agents, broker etc. nor may there be an identity of interest between any other parties involved in the transaction other than in family member purchases as indicated below. An identity-of-interest exists if the originating lender, mortgagee of record, or mortgagor (or any general or limited partner, shareholder, director, officer, employee or authorized representative of the lender) can directly, or through one or more intermediaries, control or influence the decisions or policies of the contractor, closing agent or its employees, or vice versa. An identity-of-interest exists whenever there is a financial, family relationship, professional or business affiliation involved.</p> <p>Sales between family members are permitted as long as there are no other instances of identity-of-interest or conflict of interest.</p>

## Product Guidelines

### FHA 203K LIMITED

PROGRAM CODES: F30F203K, H30F203K

Version 6.4 – 05/20/20



#### GENERAL (continued)

Closing Agents	Must use CMS approved closing agents only. Identity of interest closing agents is not allowed under the 203k program. Identity of interest exists whenever there is a financial, family relationship, professional or business affiliation involved.
Prepayment Penalty	Not permitted.
Maximum # of Properties	The maximum number of CMS properties financed for all borrowers is 2, including the subject property. The maximum number of all properties, including properties owned free and clear is 7 in accordance with FHA guidelines.
MIP Calculation	Divide the Base Loan Amount by the After Improved Value.