CMS Government Guideline Overlays

Mortgage Lending Division

Version 4.1 – 06/10/26

FHA Overlays

Topic	Overlay
FICO ≤ 640 and DTI > 43% (Retail Only)	**CMS Guideline:** For retail loans with FICOs ≤ 640 and DTI > 43%, CMS Requires 1. Letter of explanation for all derogatory credit, and 2. Current VOR with 12-month rating or rent free letter **FHA Guideline:** None
Manual Underwriting for FICOs ≤ 640 (Wholesale & Correspondent Only)	**CMS Guideline:** Loans with FICOs ≤ 640 must meet manual underwriting guidelines, including DTI restrictions, comp factor requirements (as applicable) and reserve requirements. This requirement applies to Wholesale, Non-delegated Correspondent, and Delegated Correspondent. **FHA Guideline:** None
Social Security Numbers	**CMS Guideline:** All borrowers must provide evidence of a valid SSN. **FHA Guideline:** Individuals employed by the World Bank, a foreign embassy or equivalent employer identified by HUD, state and local government agencies, Instrumentalities of Government, and HUD-approved Nonprofit organizations are not required to provide an SSN.
Private Savings Clubs	**CMS Guideline:** Assets from Private Savings Clubs are not permitted. **FHA Guideline:** FHA permits assets from Private Savings Clubs subject to numerous requirements.
Sale of Personal Property	**CMS Guideline:** Only titled items to which the borrower can prove ownership are acceptable (i.e. cars, boats, etc.). Personal items such as jewelry, appliances, etc. are not acceptable. **FHA Guideline:** Proof of ownership of the personal property is not required.
Source of Gift Funds	**CMS Guideline:** Gift funds may not be provided by cousins or family-like friends. **FHA Guideline:** Cousins are no longer included in the definition of Family Member. Acceptable Sources of Gift Funds include a close friend with a clearly defined and documented interest in the Borrower. **Exception:** UW Manager or Lead approval required with proper documentation of relationship.
Ineligible Program Features	**CMS Guideline:** Escrow waivers, Energy Efficient Mortgages, Mortgage Credit Certificates, Section 8 Vouchers, 203k rehab financing are ineligible. **FHA Guideline:** HUD permits certain program features.

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FHA Overlays (continued)

Topic	Overlay
Down Payment Assistance (DPA) Programs	**CMS Guideline:** CMS approval of DPA programs is required. CMS does not generally permit DPA programs that require lender approval, disclosure of financials, released servicing, registration or training of CMS employees, deed restrictions, or CMS to draw docs and/or fund for the DPA at closing. **FHA Guideline:** FHA permits a wide variety of DPA programs, including bond programs that require servicing released to institutional investors.
Overtime & Bonus Income	**CMS Guideline:** Overtime and Bonus Income may be used as Effective Income if the Borrower has received this income for the past (2) years and it is reasonably likely to continue. **FHA Guideline:** Periods of Overtime and Bonus Income less than two years may be considered Effective Income if Mortgagee documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue. **Exception:** UW Manager or Lead approval is required to use Overtime and Bonus Income of 12-24 months.
Ineligible Properties	**CMS Guideline:** The following properties types are ineligible: Single wide manufactured homes, FHA Secondary Residences, Construction to Perm (1-time close), properties located on Tribal Lands, sewage lakes, or properties located on sink holes. **FHA Guideline:** HUD Allows. **Exception:** CMS may consider exceptions for sewage lakes and sink holes if all FHA requirements are met and the property is marketable with similar comparable sales. Retail Only: CMS may consider exceptions for single-wide manufactured homes with acceptable marketability and comparables (not permitted for TPO).
Cash on Hand	**CMS Guideline:** Cash on hand is not permitted as an acceptable source of funds for closing or earnest money deposits. **FHA Guideline:** FHA permits Cash on Hand that is deposited to a financial institution with explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds, and an assessment of the reasonableness of the accumulation of funds based on the Borrower's income stream, spending habits, documented expenses, and history of using financial institutions. **Exception:** Exceptions may be considered on a case-by-case basis by underwriting management.

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FHA Overlays (continued)

Topic	Overlay
Business Debt in Borrower's Name	**CMS Guideline:** Borrower debt paid by a Sole Proprietorship/Schedule C business may not be excluded from qualifying debt ratios. **FHA Guideline:** Business debt reported on the Borrower's personal credit report may be excluded from the DTI calculation when the Mortgagee can documented that the debt is being paid by the Borrower's business, and the debt was considered in the cash flow analysis of the Borrower's business. FHA guidelines do not differentiate business types, but require "business Tax Returns."
Sweat Equity	**CMS Guideline:** Sweat equity is not permitted as an acceptable source of MRI. **FHA Guideline:** FHA permits sweat equity as an acceptable form of the borrower's Minimum Required Investment subject to numerous requirements and restrictions.
IRS Transcripts	**CMS Guideline:** The 4506-C must be processed and transcripts obtained for Purchase transactions with self-employed income and at least one of the following: • LTV > 95% • DTI > 50% • Gift funds received • Borrower has a Chapter 7 BK within the last 4 years **FHA Guideline:** FHA requires borrowers to execute a 4506-C at closing, but does not require the lender to obtain transcripts prior to closing.

*Overlays are generally not applicable for Delegated Correspondent Loans with the exception of FICOs ≤ 640 must meet manual underwriting guidelines.

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VA Overlays

Topic	Overlay
Maximum Loan Amount	**CMS Guideline:** Maximum loan amounts are specified in the CMS VA Matrices. Loan Amounts are generally limited to the maximum FHFA conforming high balance limit. **VA Guideline:** VA does not have a maximum loan amount. **Exception:** Loan Amount exceptions may be considered on a case-by-case basis jointly by Secondary and Underwriting.
Housing Payment History	**CMS Guideline:** Manually underwritten VA loans (including IRRRLs) mortgages must be current for the month due. Housing history must include no lates in the most recent 12 months (0x30x12). **VA Guideline:** VA does not provide specific guidance on housing lates for Purchase, Cash Out, or IRRRL transactions. Existing liens may be delinquent (delinquent IRRRLs require credit qualifying). **Exception:** UW Management may consider an exception to 0x30x12 with a written LOE and supporting documentation.
Joint Loans	**CMS Guideline:** CMS permits two-veteran joint loans. CMS does not generally permit veteran-non veteran joint loans. **VA Guideline:** VA permits veteran-non veteran joint loans with Prior Approval and proof the veteran can qualify for one-half of the mortgage and their separate debts on their own. Only the veteran's portion of the loan is guaranteed. **Exception:** UW management may consider an exception to approve a veteran-non veteran joint loan, subject to VA Prior Approval, when all VA requirements are met and there will be a sufficient guaranty+equity to satisfy GNMA's 25% requirement.
Ineligible Properties	**CMS Guideline:** More than one manufactured home is not permitted. **VA Guideline:** VA does not address. **Exception:** UW Management may consider an exception for a manufactured ADU that exists legally, meets HUD/FHA requirements, and is demonstrated to be marketable with similar comps.
Contingent Liabilities	**CMS Guideline:** Debts that the borrower co-signed or is a co-obligor on may be excluded from DTI with proof the other obligor has made at least 12 payments. **VA Guideline:** VA does not require a minimum number of payments. The lender may exclude loan payments if there is evidence that the loan payments are being made by the primary- or co-obligor and the obligation is current, and there is not a reason to believe that the borrower will have to participate in repayment of the loan. **Exception:** UW Management may consider an exception to accept fewer than 12 payments on a case-by-case basis.

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VA Overlays (continued)

Topic	Overlay
Down Payment Assistance (DPA) Programs	**CMS Guideline:** CMS approval of DPA programs is required. CMS does not generally permit DPA programs that require lender approval, disclosure of financials, released servicing, registration or training of CMS employees, deed restrictions, or CMS to draw docs and/or fund for the DPA at closing. **VA Guideline:** VA permits a wide variety of DPA programs, including bond programs that require servicing released to institutional investors.
Expected Income	**CMS Guideline**: A current pay stub is required for all borrowers qualifying with wages. **VA Guideline:** A borrower may have a valid offer of employment which will begin at or after the anticipated date of closing which can be verified. All data pertinent to underwriting procedures should be considered. However, a paystub(s) may not be available. **Exception:** UW Management may consider an exception on a case-by-case basis for discharging veterans.
Sale of Personal Property	**CMS Guideline:** AUS Approve – Bill of sale and evidence of proceeds; Manual Underwrite – Proof of ownership, support for the value of the asset, bill of sale, receipt of proceeds, and buyer must not be party to the transaction. **VA Guideline:** No VA guidance
Asset Waiver	**CMS Guideline:** All funds to close must be verified with a 1-month bank statement (AUS) or 2 months bank statements (Manual). All funds to close to be documented, asset waiver is not permitted for full doc loans. **VA Guideline:** DU Findings may provide a waiver of assets when cash to close is <4%.
IRS Transcripts	**CMS Guideline:** The 4506-C must be processed and transcripts obtained for Purchase transactions with self-employed income and at least one of the following: • LTV > 95% • DTI > 50% • Gift funds received • Borrower has a Chapter 7 BK within the last 4 years **VA Guideline:** VA does not require the lender to obtain transcripts prior to closing.

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USDA Overlays

Topic	Overlay
Down Payment Assistance (DPA) Programs	**CMS Guideline:** CMS approval of DPA programs is required. CMS does not generally permit DPA programs that require lender approval, disclosure of financials, released servicing, registration or training of CMS employees, deed restrictions, or CMS to draw docs and/or fund for the DPA at closing. **USDA Guideline:** USDA permits a wide variety of DPA programs, including bond programs that require servicing released to institutional investors.
Existing Manufactured Homes	**CMS Guideline:** Manufactured homes must meet the definition of new construction (built within 12 months of the manufactured date) unless the property is currently USDA-guaranteed. **USDA Guideline:** USDA has expanded guidelines to include existing manufactured homes that are manufactured within 20 years of the date of closing, subject to additional requirements. **Exception:** CMS may consider an exception to existing manufactured homes on a case-by-case basis. The requirements of HB-1-3555 must be met.

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