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|------------------------------|---|---|
| <b>FHA Manual Underwrite</b> | <i>Definition of Manually Underwritten Loan</i> | <ul style="list-style-type: none"> <li>• Loan receiving a “Refer” finding; and</li> <li>• Loan receiving an “Approve/Accept” finding but which have been downgraded to a Refer by the underwriter; and</li> <li>• Loan receiving an “Approve/Accept” is downgraded to a “Refer”, loan must be a manual underwrite.</li> </ul> |
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| <b>Credit</b> | <i>Minimum Credit Score</i> | The minimum credit score for all FHA Manually underwritten loans is <b>620</b> . |
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| <b>Maximum Qualifying Ratio Matrix</b> | <b>Lowest Minimum Decision Credit Score</b>  | <b>Maximum Qualifying Ratios (%)</b> | <b>Acceptable Compensating Factors</b>   |
|  | <b>All manual underwritten loans require a VOR If paid to a management company or 12 months cancelled checks if from an individual. If the borrower does not pay any rent a letter from the individual where the borrower is living rent free is required.</b> |                                      |  |
|  | 620 & Above  | 31/43                                | <ul style="list-style-type: none"> <li>• No compensating factors required.</li> <li>• Energy Efficient Homes may have stretch ratios of 33/45.</li> </ul>  |
|  | 620 & Above  | 37/47                                | <p><b>One</b> of the following:</p> <ul style="list-style-type: none"> <li>• Verified &amp; documented cash reserves equal to at least three total monthly mortgage payments.</li> <li>• New total monthly mortgage payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less; and there is a documented twelve-month housing payment history with no more than one thirty-day late payment.</li> <li>• Residual Income per VA chart.</li> </ul>  |
|  | 620 & Above  | 40/40                                | <ul style="list-style-type: none"> <li>• Borrower has established credit lines in his/her own name (open for at least six months) but carries no discretionary debt (monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for at least the past six months).</li> </ul>  |
|  | 620 & Above  | 40/50                                | <p><b>Two</b> of the following:</p> <ul style="list-style-type: none"> <li>• Verified &amp; documented cash reserves equal to at least three total monthly mortgage payments.</li> <li>• New total monthly mortgage payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less; and there is a documented twelve-month housing payment history with no more than one thirty-day late payment.</li> <li>• Verified and documented significant additional income that is not considered effective income and likely to continue (part-time or seasonal income verified for more than 1 year but less than 2 years). The income if it were included in gross effective income is sufficient to reduce the qualifying ratios to not more than 37/47.</li> <li>• Residual Income per VA chart.</li> </ul> |

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| <p><b>Reserves</b></p> | <p><i>Definition of Reserves.</i></p>               | <p>Reserves are defined as:</p> <ul style="list-style-type: none"> <li>• The sum of verified and documented borrower funds; minus</li> <li>• The sum the borrower is required to pay at closing, including the cash investment, closing costs, prepaid expenses, any payoffs that are a condition of loan approval, and any other expenses required to close the loan;</li> </ul>   |
|                        | <p><i>Verified and Documented Cash Reserves</i></p> | <p>All manually underwritten loans must meet or exceed the following minimum reserve requirements:</p> <ul style="list-style-type: none"> <li>• 1 and 2 Unit Properties: Reserves must equal or exceed <u>one</u> total monthly mortgage payment.</li> <li>• 3 and 4 Unit Properties: Reserves must equal or exceed <u>three</u> total monthly mortgage payments.</li> </ul> <p>Funds and/or “assets” that are not to be considered as cash reserves include:</p> <ul style="list-style-type: none"> <li>• Gifts.</li> <li>• Equity from another property.</li> <li>• Borrowed funds.</li> <li>• Cash received at closing in a cash-out refinance transaction or included in cash received at closing in the loan transaction.</li> </ul> <p>The mortgagee may use a portion of a borrower’s retirement account (IRA, Thrift Savings Plan, 401k, and Keogh accounts) to calculate cash reserves, subject to the following conditions:</p> <ul style="list-style-type: none"> <li>• To account for withdrawal penalties and taxes, only <b>60%</b> of the vested amount of the account, less any outstanding loans, may be used. The mortgagee must document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals under conditions other than in connection with the borrower’s employment termination, retirement, or death.</li> <li>• If withdrawals can be made only in connection with the borrower’s employment termination, retirement, or death, the retirement account may not be used to calculate the borrower’s cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves.</li> </ul> |

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| <b>Residual Income</b>      | <i>Calculating Residual Income</i>                    | <p>Residual income is calculated in accordance with the following:</p> <ul style="list-style-type: none"> <li>• Calculate the total gross monthly income of all occupying borrowers</li> <li>• Deduct from the gross monthly income the following items: <ul style="list-style-type: none"> <li>➢ State income taxes</li> <li>➢ Federal income taxes</li> <li>➢ Municipal or other income taxes</li> <li>➢ Retirement or Social Security</li> <li>➢ Proposed total monthly fixed mortgage payment</li> <li>➢ All recurring monthly debt obligations</li> <li>➢ Estimated maintenance and utilities (<b>\$0.14 x sq. ft.</b>)</li> <li>➢ Job related expenses (e.g., child care)</li> </ul> </li> <li>• The difference between the gross monthly income and the deductions above is the residual income</li> </ul> |
| <b>Compensating Factors</b> | <i>Using Residual Income as a Compensating Factor</i> | <p>Count all members of the household of the occupying borrowers without regard to the nature of their relationship and without regard to whether they are joining on title or the note.</p> <p><b>Exception:</b> As stated in the VA Guidelines, the mortgagee may omit any individuals from “family size” who are fully supported from a source of verified income which is not included in the effective income in the loan analysis. These Individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exemption.</p> <p>From the table <b>below</b>, select the applicable loan amount and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.</p>                            |

**Table of Residual Incomes by Region – For loan amounts of \$79,999 and below**

| <i>Family Size</i> | <i>South</i>  |
|--------------------|---|
| 1                  | \$382   |
| 2                  | \$641   |
| 3                  | \$772   |
| 4                  | \$868   |
| 5                  | \$902   |
| <b>Over 5</b>      | Add \$75 for each additional family member up to a family of seven. |

**Table of Residual Incomes by Region - For loan amounts of \$80,000 and above**

|   |         |
|---|---------|
| 1 | \$441   |
| 2 | \$738   |
| 3 | \$889   |
| 4 | \$1,003 |
| 5 | \$1,039 |

**Accept Risk Class required downgrade to Manual Underwriting**

The Mortgagee must downgrade and manually underwrite any mortgage that received an accept or approve/eligible recommendation if:

- The mortgage file contains information or documentation that cannot be evaluated by TOTAL.
- Additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage.
- The borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts.
- The date of the borrower’s bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of the case number assignment.
- The case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale).
- The case number assignment date is within three years of the date of the transfer of title through a foreclosure sale.
- The case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure.
- The Mortgage Payment history, for any mortgage trade line reported on the credit report used to score the application, requires a downgrade as defined in Housing Obligations/Mortgage Payment History.
- The Borrower has undisclosed mortgage debt that requires a downgrade.
- Business income shows a greater than 20 percent decline over the analysis period.
- Per AUS Findings.

**FHA FAQ link**

ML 2014 – 02 on Manual Underwriting was incorporated into the HUD Handbook 4000.1. Additional source for questions will be the FAQ’s. Use “manual underwriting and compensating factors” to search. <https://www.hud.gov/FHAFAQ>