



Mortgage Product Training:  
**Basics of FHA Lending**



## AGENDA

- FHA Overview and Benefits
- Borrower Eligibility
- Minimum Required Investment
- MIP (Mortgage Insurance)
- Disclosures/Fees
- Credit
- Employment/Income
- Liabilities
- Collateral
- Refinances
- Special Considerations
- Originating FHA loan with MFM



## OVERVIEW

## Disclaimer

## Disclaimer



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## ABOUT FHA

- Department of Housing & Urban Development / Federal Housing Administration
  - Established in the 1930's
  - FHA is really an insurance agency within HUD
  - FHA does not lend any money to borrowers or lenders
  - Lower risk to Lenders
  - FHA is credited with innovating the 30-year fixed rate loan
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## BENEFITS OF FHA



- Low Down Payment (as little as 3.5%)
- No Income Restrictions
- Flexible Credit Standards
- Expanded Ratios
- Most Property Types allowed, including Manufactured Homes and Multi-Unit Properties
- Non Occupant Co-Borrowers allowed
- Seller Concessions up to 6%
- Gifts and HUD Approved Down Payment Assistance accepted
- No Reserve Requirements for 1-unit properties with AUS approval

## BORROWER ELIGIBILITY



- FICO score at least 620 (580 possible)
- MIP (Mortgage Insurance Premium ) is required
- Debt-to-Income Ratio < 50%
- Home must be borrower's primary residence (in most cases)
- Multiple FHA loans:
  - Relocation – 100 miles
  - Increase in family size
  - Leaving a Jointly-Owned Property; such as in the case of a divorce
- Borrower must have steady income and proof of employment.
- Borrower must be a lawful US resident
- Minimum required investment must be met

LOAN  
LIMITS

ASSETS /  
RESERVES /  
CASH

MORTGAGE  
INSURANCE

CREDIT

REQUIRED  
INVESTMENT

COLLATERAL

EMPLOYMENT  
& INCOME

SPECIAL  
CONSIDERATIONS

LIABILITIES &  
OBLIGATIONS

## FHA LOAN LIMITS



- The FHA has maximum loan limits which are determined by the county the property is in, and are based on the conventional loan limits set by Fannie Mae and Freddie Mac and adjusted based on the median home price in the area.
- Loan limits are reviewed and adjusted annually
- The loan limits for a county increase based on the number of units in the property.

**Limits**

For 2022, the FHA floor is set at \$420,680 for single-family homes. This minimum lending amount covers most U.S. counties. The FHA ceiling represents the maximum loan amount and is illustrated in the table below:

<b>FHA Loan Limits (low cost areas)</b>			
Single	Duplex	Tri-plex	Four-plex
\$420,680	\$538,650	\$651,050	\$809,150

For 2022, the FHA ceiling is set at \$970,800 for single-family homes. This represents the highest amount that a borrower can get through the FHA program. It applies to high cost areas in the U.S. and is illustrated in the table below:

<b>FHA Loan Limits (high cost areas)</b>			
Single	Duplex	Tri-plex	Four-plex
\$970,800	\$1,243,050	\$1,502,475	\$1,867,275

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



# MORTGAGE INSURANCE (MIP)



- The UFMIP (up-front mortgage insurance premium) is 1.75% for all FHA mortgage programs regardless of LTV (except for loans on Indian land)
- The annual MIP varies based on several factors, including the amount being borrowed and the loan-to-value (LTV) ratio

<b>Annual Mortgage Insurance Premium (MIP)</b>			
Applies to all Mortgages except:			
<ul style="list-style-type: none"> <li>• Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA endorsed Mortgage on or before May 31, 2009</li> <li>• Hawaiian Home Lands (Section 247)</li> </ul>			
Hawaiian Home Lands (Section 247) do not require Annual MIP.			
<b>Mortgage Term of More Than 15 Years</b>			
Base Loan Amount	LTV	MIP (bps)	Duration
Less than or equal to \$625,500	≤ 90.00%	80	11 years
	> 90.00% but ≤ 95.00%	80	Mortgage term
	> 95.00%	85	Mortgage term
Greater than \$625,500	≤ 90.00%	100	11 years
	> 90.00% but ≤ 95.00%	100	Mortgage term
	> 95.00%	105	Mortgage term
<b>Mortgage Term of Less than or Equal to 15 Years</b>			
Base Loan Amount	LTV	MIP (bps)	Duration
Less than or equal to \$625,500	≤ 90.00%	45	11 years
	> 90.00%	70	Mortgage term
Greater than \$625,500	≤ 78.00%	45	11 years
	> 78.00% but ≤ 90.00%	70	11 years
	> 90.00%	95	Mortgage term

## MINIMUM REQUIRED INVESTMENT



- “MRI” refers to a Borrower’s required contribution in cash or its equivalent and represents at least 3.5 percent of the adjusted value of the property.
- A Borrower’s MRI must be from a permissible source. No portion of a Borrower’s MRI may be provided by the seller of the property; or any other person or Entity who financially benefits from the transaction (directly or indirectly); or anyone who is or will be reimbursed, directly or indirectly, by any prohibited party.
- Despite these restrictions, MRI funds may be provided by family members, and by governmental entities, when acting in their governmental capacity and where the Mortgage is being originated as part of a governmental entity homeownership program.

## EMPLOYMENT & INCOME



- 2 year history required.
- Commissions: The lender may use commission income as effective income if the borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.
- Self Employment: 2 years continuous employment. 1040's required. Transcripts will be required.
- Rental Income: 25% equity required in rental property if not reported on most recent schedule E.

## Student Loans

## LIABILITIES & OBLIGATIONS



- Closed-end debts with less than 10-months to payoff and with the cumulative payments of all such debts less than or equal to 5 percent of the borrower's gross monthly income are not required to be included in the DTI; pay down of the balance to meet the 10-month requirement is not allowed.
- Debts of non-purchasing spouse must be included in ratios in community property states.

## STUDENT LOANS

Student loans, regardless of the payment status use:

- The payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

Exception: If student loan payment is in COVID deferment, the Mortgagee may use the payment amount reported on the credit report or the actual documented payment prior to deferment, when that payment amount is above \$0.

## ASSETS / RESERVES / CASH TO CLOSE



- Reserves are not required for 1-unit, however, 3 months reserves are required for three to four unit properties.
- Seller concessions capped at 6%
- Gifts are allowed from: Family member, employer or labor union, a close friend with a clearly defined interest in the borrower (must be documented), charitable organization, governmental agency or a public entity that has a program providing homeownership assistance to low or moderate income families or first-time home buyers.

**DEROGATORY  
EVENTS**

**COLLECTIONS**

**DISPUTED  
ACCOUNTS**

## **CREDIT**



- 620 scores for servicing retained (580 for servicing released).
- Credit Report must be obtained and debts counted for non purchasing spouse in community property states.
- Non-occupant co-borrowers are permitted, must be a family member.
- CAIVRS

## DEROGATORY EVENTS

Derogatory Events Waiting Periods\* The waiting period is measured by the completion, discharge, or dismissal of the derogatory credit event and ends on the case number assignment date:

- **Foreclosure - 3 years**
- **Short Sale - 3 years**
- **Chapter 7 - 2 years**
- **Chapter 13** - Does not have to be discharged if at the time of case number assignment at least 12-months of the pay-out period under the bankruptcy has elapsed. Borrower's payment performance has been satisfactory, and all required payments must have been made on time. Borrower must receive written permission from bankruptcy court to enter the mortgage transaction
- Extenuating Circumstances



## COLLECTIONS

FHA classifies collection accounts into three categories:

- **Medical Collection Accounts** - ALWAYS excluded from DTI and not required to be paid.
- **Non-Medical Collection Accounts** - FHA requires that any outstanding non-medical collection accounts with an aggregate total unpaid collection account balance of greater than \$2,000, that 5% of the unpaid outstanding collection balance be used in the calculation of the borrower's debt to income ratio. Non purchasing spouse's debt in community property states *are* included.
- **Charge Off Accounts** - Not included in borrower's liabilities or debt

## DISPUTED ACCOUNTS

- Disputed Derogatory Credit Accounts are allowed if the borrower has less than \$1,000 collectively.
- Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a Refer.

## COLLATERAL



- Single Family Residences, 1-4 units
- Property must meet FHA minimum property standards
- PUDs
- Condos (must be on FHA approved condo list):
  - <https://entp.hud.gov/idapp/html/condlook.cfm>
- New Construction
- Manufactured Homes (no singlewides or relocated manufactured homes)
- Appraisers must be FHA approved
- Recertification of Value must be obtained BEFORE original appraisal expires

**SPECIAL  
CONSIDERATIONS**



**PROPERTY  
FLIPPING**

**IDENTITY  
OF  
INTEREST**

## PROPERTY FLIPPING

- Property Flipping refers to the purchase and subsequent resale of a property in a short period of time.
- FHA financing **IS NOT** eligible if a property is resold within 90 days or fewer following the current owner's date of acquisition.
- Resales occurring between 91-180 days after acquisition may require a second appraisal that cannot be paid for by the borrower.



## IDENTITY OF INTEREST

- An identity of interest transaction is a sale between family members or parties with an existing business relationship.
- Identity of interest rules also apply to transactions where a tenant-landlord relationship exists at the time of contract execution.
- The maximum LTV in an identity of interest transaction is 85%.



**FHA  
REFINANCES**

**Rate & Term or Streamline Refi:**

- Other to FHA requires full credit qualifying
- FHA to FHA typically can be done as a streamline refinance

**CASH OUT  
REFI**

## CASH OUT REFI

- Subject property must have been owned and occupied by the borrower's principal residence for the 12 prior months. The borrower's employment documentation or utility bills must evidence the borrower has occupied the subject property as their principal residence for the 12 months prior to case number assignment.
- Borrower must have made the last 12 months mortgage payments on time.
- Properties owned free and clear may be refinanced as cash-out transactions.
- Maximum LTV/CLTV is 80% of the Adjusted Value; Combined mortgage amount of the first lien and any subordinate liens cannot exceed FHA Nationwide Mortgage Limit.
- The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the initial loan. Monthly payments cannot be prepaid to meet six consecutive payments requirement.



## **FHA WITH MFM**

Offering FHA Loans will differ for your Credit Union depending on your partnership with MFM:

**Affiliate  
Partners**

**Wholesale  
Partners**

**Correspondent  
Partners**

## Affiliate Partners

If the Credit Union partner **does NOT have Full Eagle** approval from HUD:

- **Affiliate 1, 2, or 3** FHA loans would be originated by MFM, close and fund in MFM's name. This referral option keeps your member from using another lender, but there is no income to the credit union.

If the Credit Union partner **has Full Eagle** approval, they may originate FHA loans and close and fund those loans in their name under the Affiliate 2 or 3 levels. MFM would process, underwrite and manage the closing on A2 level and MFM would underwrite and manage the closing on the A3 level.

## Wholesale Partners

### **Wholesale Classic, Wholesale Lite or Wholesale Full:**

Credit Union may originate FHA loans with a TPO sponsored relationship with MFM. CU will take the application and perform 5 RESPA functions (Full Wholesale completes all processing as well). CU earns lender paid compensation equal to the margin they select that is built into the rate. Loans close and fund in MFM's name.

## Correspondent Partners

**Correspondent:** CU can originate, process, underwrite\*, close, fund and sell close loans to MFM if they have their Full Eagle Approval from HUD.

*\*To underwrite the file, CU must have DE underwriters and be approved by MFM to underwrite the file.*

*Correspondents without Full Eagle Approval may refer FHA or participate in one of the Wholesale levels.*

**THANK  
YOU!**

# Questions & Answers

**MFM Mission  
& Values**





## MISSION AND CORE VALUES

**MISSION:** At Member First Mortgage our mission is simple - deliver expert mortgage solutions!

We aim to provide communication that creates a proactive, efficient environment to anticipate changes within the market, support growth, and better the communities we serve.

**VISION:**

- **HONEST AND ETHICAL:** Consistently striving to achieve the highest standards.
- **UNITED, SUPPORTIVE, RESPECTFUL COMMUNICATION:** Working collaboratively to support decisions and each other, while practicing active listening and transparent communication
- **LEVERAGING OUR EXPERTISE:** Achieving operational excellence through continuous education efficiencies.
- **OFFERING THE BEST EXPERIENCE AND A COMPLETE SOLUTION:** Being the Mortgage lender of choice for our members and Credit Union partners.