



MFM Bulletin: 014-2024

Date: June 7, 2024

Subject: FHA 4000.1 Handbook Changes

The FHA has recently published changes to FHA 4000.1 Handbook, please see below for highlights. **All changes are effective immediately.**

Refinance Transactions:

- In cases where property was acquired with the past 12 months - FHA will now include “non-monetary transactions” in the exception instances where the appraised value may be used in the maximum mortgage calculation.
- This may include situations where the property was previously titled in an LLC and the borrower is 100% owner of LLC.

Unacceptable Private Water Systems:

- If the subject Property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point wells or artesian wells, the Property is not eligible for FHA mortgage insurance.

Borrowers Previously on Forbearance Plan:

- Clarified requirement that a Borrower who has made less than three consecutive monthly housing payments since completion of a mortgage Forbearance Plan must be manually underwritten.

Large Deposits:

- FHA will now base large deposits on Effective Income rather than Adjusted Value of the home.
- For individual deposits of more than 50 percent of the total monthly Effective Income, the source of the large deposit must be documented. *The lender must also verify that the deposits are commensurate with the borrower’s income and savings history and no new debts were incurred to obtain all or part of the funds to close.*

Disaster Inspections:

- Added new guidance to allow an Appraiser to conduct a Remote Observation for disasters and reinspection. See handbook and MFM Disaster Policy for specific guidance.



Documenting Transfer of Gift Funds:

- FHA will no longer automatically require the donor's bank statement to verify transfer of gift funds prior to closing as long as one of the following is provided:
 - A copy of the donor's canceled check and evidence of deposit into the Borrower's account; or
 - A copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account; or
 - Evidence of the electronic transfer of funds from the donor's account to the Borrower's account.

- For Gifts that will be verified at closing, one of the following must be obtained evidencing payment to the settlement agent:
 - Evidence of electronic transfer of funds from the donor's account;
 - Bank certified check;
 - Cashier's check or other official bank check showing donor as remitter

- For Gifts of land, the Mortgagee must obtain:
 - Proof of ownership by the donor; and
 - Evidence of the transfer of title to the Borrower.

Cash Out Refinances:

- If the Mortgage on the subject Property is not reported in the Borrower's credit report or the subject Property is not in the name of the Borrower, the Mortgagee must obtain a verification of Mortgage, bank statements, or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

Manufactured Homes:

- Installation of solar panels and/or wind technologies on Manufactured Housing must comply with Additions to Manufactured Housing requirements. Structural Engineer Inspection must address subject's solar panels/wind technologies in the inspection report.

ADU Rental Income:

- A Single Family residential one-unit Property with a single ADU remains a one-unit Property.
- Rental Income from existing and prospective ADU renters may be used if documented in accordance with the following requirements;
 - Subject property with limited or no history of ADU rental income:
 - Fannie Mae Form 1007/Freddie Mac form 70 (single family rent comparable schedule) showing fair market rent and, if available, the prospective Leases.
 - The amount of the Rental Income from an ADU used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.



Cash Reserves:

- If Rental Income from ADU is being used as Effective Income to qualify the Borrower, then reserves in the amount of two months' PITI after closing is required.

Cash Out Refinances for Properties with ADUs:

- If the subject Property is a one-unit with an Accessory Dwelling Unit (ADU), rental income from the ADU cannot be used as Effective Income to qualify for a cash-out refinance.

Please contact the MFM Underwriting Dept. (underwriting@memberfirstmortgage.com) if you have any questions or concerns.

Thank you