

# FHA Financing101

*GREC Course # 65973  
through  
Georgia Real Estate Academy – GREC School #6915*

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## Introduction

- Loan Officer for over 13 years
- Chemical and Bio-molecular Engineering Degree from GaTech...GO JACKETS!!
- Father of 3, Husband of 1
- Play drums and run the music at church
- Baseball Coach

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## Goals

- Review/become familiar with FHA guidelines
- Covid-19 and the FHA loan program
- Explain how FHA loans work on HUD homes
- Learn how to set expectations regarding cash to close and money needing during the financing process for both standard FHA loans and HUD REOs

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**Goals**

- Repair escrows – Allowable Repairs, Flexibility
- Discuss recent changes in FHA guidelines
- Review 203K financing and highlight how 203K changes for HUD homes
- Create a comfort level with FHA financing for buyers and sellers

**More Clients → More \$\$**

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**Jay’s Real Estate Postulate**

**“The characteristic that can cause the greatest increase in a real estate agent’s commission is a lender that truly knows the FHA loan program.”**

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**FHA Financing 101**

- Rules, Guidelines, Overlays, and Risk Management
  - Rules and Guidelines are provided by HUD via the FHA Mortgagee Handbook (4000.1)
  - Updates to the handbook are provided in Mortgagee Letters
  - Approved lenders underwrite and close FHA loans without prior FHA review or approval (DE)
  - Lenders can set individual guidelines (overlays) designed to Manage Risk

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**FHA Financing 101**

- Overlays and Risk Management
  - Why is this so important?
  - HUD can TERMINATE a lender’s underwriting authority
    - HUD reviews lenders default rate every 3 months
    - 1 - 30 day late within 12 months is a default
    - HUD reviews are within geographic areas
      - Atlanta is compared with Quicken and Wells Fargo

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**FHA Financing 101**

- Loan Basics
  - 203(b), 203(k), 221(d), 234(c), 245(a), etc.
- Minimum Down Payment: 3.5%
  - Must be borrower’s own funds
  - Gifts are okay if from an acceptable source
    - Adds a layer of risk
- Up to 6% “Interested Party” contributions
- 2 Types of Mortgage Insurance
  - Upfront (1.75%)
  - Monthly (varies, but usually 0.85%)

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**FHA Financing 101**

- Income must be stable (2 year history) and continue for at least 3 years
- Credit requirements are very flexible.
  - FHA’s minimum credit score is 500!!
  - Seasoning Requirements:
    - 3 years after a foreclosure
    - 2 years after a Chapter 7 BK (discharge date)
    - 1 year after a Chapter 13 BK (file date - payments must be on time and must have trustee approval)
    - No waiting period on a short sale if no mortgage lates, otherwise same as a foreclosure

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**FHA Financing 101**

- Current Loan Limit
  - Metro Atlanta, 1-unit property

\$401,350

- Max Sales Price of ~\$416,000 for maximum LTV financing

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**FHA Financing 101**

- Ancillary requirements
  - Borrower must be a legal US resident or permanent resident alien
  - Borrower must have a clear Credit Alert Verification Reporting System (CAIVRS) number
  - Federal Tax Liens can remain open IF the borrower has arranged a payment plan and made at least 3 on time payments
  - Collections can remain open (capacity analysis is required, \$2000+ must count a payment of 5%)
  - Disputed Derogatory accounts may cause approval problems (\$1000+ requires a manual UW)
  - 90 Day Flip Rule

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**FHA Financing 101**

- 2 Ways to get Loan Approval
  - Automated Approval
  - Manual Approval

(A very good question to ask the lender is “Is this file an automated approval or a manual underwrite?”)

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**FHA Financing 101**

- Automated Approval
  - Easy Way
  - Loan is approved through FHA's TOTAL mortgage scorecard
    - Credit is acceptable with no additional review
    - Rent does not have to be verified
    - Simplified Documentation Requirements
    - Aggressive DTI approvals
    - Reserves based on approval
  - Other names included "Automated Approval", A/E, DU, LP, etc.

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**FHA Financing 101**

- Manual Underwrite
  - Hard Way
  - Loan is manually reviewed by an FHA certified underwriter
    - 12 month rent history must be verified
    - Credit depth is reviewed
    - Full Documentation required (e.g. 12 months receipt of child support)
    - LOX required for derogatory credit (looking to show why bad credit was temporary and not cyclical)

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**FHA Financing 101**

- Manual Underwrite
  - Minimum 1 month reserve required (gifts don't count)
  - Compensating Factors used to justify higher DTI
    - Max 31/43 with no factors
    - Max 37/47 with 1 factor
    - Max 40/50 with 2 factors
  - Allowable Compensating Factors
    - 3 months reserves (gifts don't count)
    - Little/no payment shock (Payment increases by \$100 or less)
    - Residual Income

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### FHA Financing 101

- Manual Underwrite
  - Residual Income
    - Cash flow analysis
    - Gross Income – Taxes – Debt – House Payment – Utilities/Maintenance = Residual Income
    - Must meet minimum threshold to use as compensating factor

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### FHA Financing 101

- Manual Underwrite
  - Residual Income

Table of Residual Incomes by Region For loan amounts of \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$838	\$808	\$808	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of seven			

Table of Residual Incomes by Region For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of seven			

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### FHA Financing 101

- FHA Back to Work
  - Allows for 1 year seasoning for any/all major derogatory credit (foreclosure, BKs, short sales, etc.)
  - Must be able to prove 20% or more decrease in income
  - Must complete homebuyer counseling prior to loan application

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**FHA Financing 101**

- Secondary Financing
  - Can be provided by Government Entities, Hud-Approved Non-Profits, Family Members, or Private Individuals.
    - CLTV Ratios change based on source
  - This guideline allows for DPA
  - DPA guidelines are always more strict than standard FHA guidelines

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**FHA Financing 101**

- GA Dream – Cliffs Notes
  - Income limit: Typically \$74,000/\$84,500
    - Household income limit
  - Max Sales Price: \$250,000
  - Total Closing Costs are Typical costs + 2%
  - Expect 6% seller paid on GA Dream

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**FHA Financing 101**

- GA Dream – Cliffs Notes
  - Standard: \$5,000
  - PEN: \$7,500
  - Choice: \$7,500
    - All must be repaid
  - Hardest Hit Fund (HHF): \$15,000
    - Forgiven after 5 years
    - Fulton, DeKalb, Clayton, Douglas, Muscogee, Chatham and Bibb
    - Existing homes only (New Construction not allowed)

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**FHA Financing 101**

- Beware of the GA Dream "infinite loop"
  
- DTI: 640 – 659 28/36  
660 – 699 35/43  
700+ Per Total Scorecard

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**FHA Financing 101**

- Chenoa
  
- 3 Different repayment options
  - Anyone remember Nehemiah?
  
- Essentially Seller funded DPA

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**FHA Financing 101**

- Appraisal
  - Must have an FHA case number prior to ordering an appraisal
  - Appraisal "sticks" to the property for 4 months via the case number
  - Property must meet "HUD minimum standards"
  - Utilities must be on at time of inspection
  - Any deficiencies noted must be corrected prior to the loan receiving FHA mortgage insurance
  - Repair Escrows are allowed to correct deficiencies
    - Escrow cannot be included in the loan amount
    - Can only escrow for items listed on the appraisal

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**HUD Minimum Standards**

- Health and Safety of Occupants
- Security and Soundness of Property
- Deferred Maintenance is Okay
- Appliances?

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**Repair Escrows**

- Work must be for items that are FHA required
- Estimates are not set in stone
- Depending on the scope of work, we can issue half of the funds upfront
- Numbers can be updated
- If there is any extra \$\$, it will be used to reduce the loan amount
- Can be used for both HUD REOs and standard purchases
- Up to \$11,000 on HUD REOs, \$5,000 on Standards Purchases

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**Basic FHA Loan Structure**

Maximum Loan Amount – Standard

- Assume Appraised Value >= Sales Price
- Down Payment is 3.5% of the sales price  
(Sales Price) – (Down Payment) = **Base Loan Amount**
- Upfront Mortgage Insurance is 1.75% of the BLA  
(BLA) \* 1.75% = UFMIP
- UFMIP is included in the Loan  
BLA + UFMIP = **Total Loan Amount**

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**Basic FHA Loan Structure**

Maximum Loan Amount – Standard Example

- Sales Price is \$100,000 (Appraised Value \$100k+)
- Down Payment is 3.5% of the sales price  
 $\$100,000 - \$3,500 = \text{\$96,500 Base Loan Amount}$
- Upfront Mortgage Insurance is 1.75% of the BLA  
 $\$96,500 * 1.75\% = \text{\$1,688 UFMIP}$
- UFMIP is included in the Loan  
 $\$96,500 + \$1,688 = \text{\$98,188 Total Loan Amount}$

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**HUD REOs**

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**FHA Underwriting Guidelines\***

- No changes/differences from standard FHA financing pertaining to verification of income, assets, credit, etc.
- Minimum Down Payment: \$100 (versus 3.5%)
- ~~Max TOTAL Loan Amount is 100% of the "value" of the home, except for~~
- Max Base Loan Amount is lessor of appraised value or sales price minus \$100
- Repair escrows (up to a maximum of \$11,000) can be financed into the loan amount

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**Biggest Misunderstanding**

- Cash – to – Close
- “It’s only \$100 down, right?”
- Closing Costs
- Potential out of pocket costs: Earnest Money, Utilities, De-winterization, Appraisal, etc.

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**Cash to Close (examples)**

- Initial List Price: \$105,000
- Sales Price: \$100,000
- Appraised Value: \$105,000
- Base Loan Amount: \$99,900
- Closing Costs + Prepaids = \$4,000
- SPCC: \$3,000

$\$100 \text{ down} + \$1,000 \text{ costs} = \mathbf{\$1,100}$

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**Cash to Close (examples)**

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**Cash to Close (examples)**

- Initial List Price: \$100,000
- Sales Price: \$105,000
- Appraised Value: \$110,000
- Closing Costs + Prepays = \$4,000
- SPCC: \$3,000

Base Loan Amount: \$99,900

\$100 down + \$1,000 costs = **\$1,100**

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**Cash to Close (examples)**

- Sales Price: \$100,000
- Appraised Value: \$98,000
- Base Loan Amount: \$97,900
- Closing Costs + Prepays = \$4,000
- SPCC: \$3,000

\$100 down + \$1,000 costs + \$2,000 Appraisal Issue = **\$3,100**

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**FHA Changes  
(from 4155 to the 4000.1)**

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### FHA Changes

- 4155 has been a staple in the mortgage business for years and years
- Retiring the 4155 is HUGE change in FHA lending
- The new 4000.1 handbook consists of 2 separate sets of guidelines
  - TOTAL scorecard loans
  - Manual loans

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### Recent FHA Changes

- No way to discuss every change
- Most significant/influential (highest likelihood to kill a deal)
  - FHA case numbers
  - Student Loans
  - Other Miscellaneous Concerns

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### Recent FHA Changes

- FHA Case Numbers
  - Case numbers are assigned to the subject property
  - For years the main feature of a case number was to prevent multiple appraisal orders (case numbers match the property to the appraisal)
  - Now (as of the Sept '05) case numbers are significantly more important
  - Almost every date of concern in loan guidelines is based on the case number date
    - Foreclosures, BKs, overtime, 2 jobs, etc.
    - Triggers manual underwrite
  - Case numbers can be cancelled, but it is very difficult to have it cancelled after an appraisal is completed

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**Recent FHA Changes**

- Student Loans
  - Old rule: Deferred for 12+ months = no payment
  - Newer rule: Must count a payment
  - Newest rule: Must count the greater of the reported payment or 1% of the outstanding loan balance\*
    - \*Anything less than 1% must fully amortize the loan

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**Recent FHA Changes**

- Misc
  - Undisclosed Mortgage debt
    - Private Mortgage
    - Mortgage in a BK
  - 30-day accounts
  - Authorized Users
  - Identity of Interest (Non-Arms Length)
    - Landlord – Tenant relationship (max LTV 85%)
    - Move out?

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**Recent FHA Changes**

- Misc
  - Vacating a Primary Residence
    - Rental income needed? Minimum 100 miles
    - 25% equity
    - 75% of lease agreement

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**FHA and Covid-19**

- Markets went crazy
- Lenders Tighten Guidelines
- Mortgages need to be profitable for companies to lend

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**FHA 203K**

- “Project costs” replaces Sales Price
- Licensed and Insured
- Less Investors = More Overlays
  - 640 minimum score
  - 45 DTI
  - No Sweat Equity

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**Energy Efficient Mortgage**

- Works on all FHA Loans (HUD REOs included)
- Borrower can finance 100% of a cost effective “energy package”
  - Cost of improvements, including maintenance, is less than the present value of the energy saved over the useful life of the improvements

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**Energy Efficient Mortgage**

- Borrower does not have to qualify for additional financing or provide additional down payment
- Home Energy Rating System (HERS) is used to determine the cost of the improvements and the expected energy savings
  - Must be developed by a qualified home energy rater

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**Energy Efficient Mortgage**

- Cost-effective energy package is added to the loan amount
  - Cannot exceed the greater of 5% of value (max \$8,000) or \$4,000
- Can be added up top of max FHA loan amount
- Must be completed with 90 days of closing and a final inspection is required

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**Resources to Know**

- [www.hudhomestore.com](http://www.hudhomestore.com)
- [www.hud.gov](http://www.hud.gov)
- [www.fha.gov](http://www.fha.gov)
- [www.homestarc.com/jayalexander](http://www.homestarc.com/jayalexander)
- Jay's Number: 678-552-1513
- 1-800-CALLFHA

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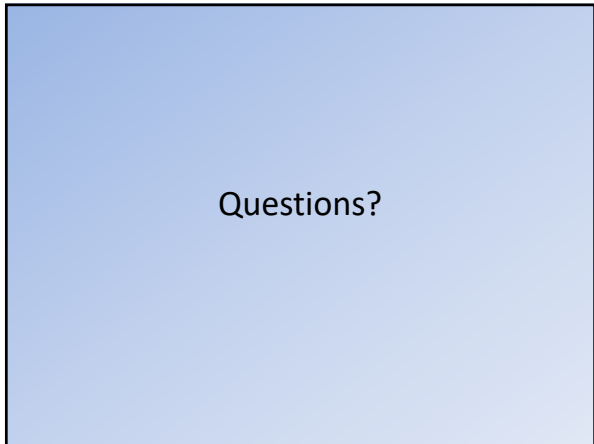
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