



## FHA 203(b)

PROGRAM SPECIFICATIONS	
<b>Description</b>	Section 203(b) is the centerpiece of FHA's single family mortgage insurance programs. It provides mortgage insurance for a person to purchase or refinance a principal residence.
<b>Channels</b>	<ul style="list-style-type: none"> <li>• Broker</li> <li>• Correspondent               <ul style="list-style-type: none"> <li>○ Table Funded</li> <li>○ Non-Delegated UW</li> <li>○ Delegated UW</li> </ul> </li> </ul>
<b>FICO</b>	Minimum Qualifying Credit Scores: <ul style="list-style-type: none"> <li>• Broker: 620</li> <li>• Correspondent               <ul style="list-style-type: none"> <li>○ Table Funded: 620</li> <li>○ Non-Delegated UW: 620</li> <li>○ Delegated UW: 620</li> </ul> </li> </ul>
<b>UW Method</b>	<ul style="list-style-type: none"> <li>• TOTAL Scorecard               <ul style="list-style-type: none"> <li>○ Desktop Underwriter (DU)</li> <li>○ Loan Product Advisor (LPA)</li> </ul> </li> </ul>
<b>AUS Recommendation</b>	<ul style="list-style-type: none"> <li>• Approve/Eligible – DU</li> <li>• Refer/Eligible - DU</li> <li>• Accept – LPA</li> <li>• Refer - LPA</li> </ul>
<b>Eligible Terms</b>	<ul style="list-style-type: none"> <li>• 10Yr., 15Yr., 20Yr., 25Yr., 30Yr. Fixed</li> <li>• 5/1 Hybrid ARM</li> </ul>
<b>Eligible Transaction Types</b>	<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate/Term Refinance</li> <li>• Cash Out Refinance               <ul style="list-style-type: none"> <li>○ <b>Note:</b> The Property securing the cash-out refinance must have been owned and occupied by the Borrower as their Principal Residence for the 12 months prior to the date of case number assignment.</li> </ul> </li> <li>• Simple Refinance</li> </ul>
<b>Eligible Property Types</b>	<ul style="list-style-type: none"> <li>• 1-2 Unit Primary Residence</li> <li>• Manufactured Housing               <ul style="list-style-type: none"> <li>○ Single-width, Multi-width, MH Condo Projects</li> </ul> </li> <li>• FHA HRAP Approved Condos</li> <li>• PUDs</li> </ul>
<b>Maximum LTV/CLTV/HCLTV</b>	<ul style="list-style-type: none"> <li>• Purchase 96.50%</li> <li>• Rate/Term 97.75%</li> <li>• Cash-Out 80%</li> </ul>
<b>Maximum DTI</b>	<ul style="list-style-type: none"> <li>• Approve/Eligible - Follow AUS</li> <li>• Refer/Eligible or Manual Underwriting - 31/43%</li> </ul>
<b>Geographic Restrictions</b>	<ul style="list-style-type: none"> <li>• Alaska</li> <li>• Hawaii               <ul style="list-style-type: none"> <li>○ AFR does not operate in the states of Alaska or Hawaii and does not permit loans with a subject property in Alaska or Hawaii for all programs in all channels with the exception of Correspondent Delegated UW transactions.</li> </ul> </li> </ul>
<b>Guidelines</b>	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1</a>
<b>Forms</b>	See FORMS Section in the Resource Center
Temporary COVID-19 Guidance	
<b>Reference Mortgagee Letters:</b> <ul style="list-style-type: none"> <li>• <a href="#">2020-05</a></li> <li>• <a href="#">2020-14</a></li> <li>• <a href="#">2020-20</a></li> <li>• <a href="#">2020-23</a></li> <li>• <a href="#">2020-24</a></li> </ul>	<b>Verbal Verification of Employment (VVOE)</b> – Case numbers closed on or before <b>June 30, 2021</b> <b>Permitted Alternative VVOE:</b> Re-verification is not required provided that the Mortgagee is not aware of any loss of employment and has obtained: <ul style="list-style-type: none"> <li>• 2 months PITI reserves (for purchase transactions); and</li> <li>• YTD paystub or direct electronic verification of income for the pay period that immediately precedes the Note date, or</li> </ul>

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**Revised**  
**04/16/21**



- [2020-28](#)
- [2020-30](#)
- [2020-37](#)
- [2020-40](#)
- [2020-46](#)
- [2020-47](#)
- [2021-06](#)
- [2021-07](#)
- [FHA FAQ's](#)

- Bank statement showing direct deposit from the Borrower's employment for the pay period that immediately precedes the Note date.
- Self-employment 10-day preclosing verification ensuring the business is currently operating:**
- Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the verification is completed),
  - Evidence of current business receipts within 10 days of the note date (payment for services performed),
  - Documented certification that the business is open and operating (through a phone call or other means); or
  - Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

**Appraisals with an effective date on or before December 31, 2020**

**General:** Most purchase, rate and term refinance and simple refinance loans may utilize an exterior-only or desktop-only appraisal inspection, subject to the requirements in ML 2020-05.

- Must be reported on the existing Acceptable Appraisal Reporting Forms by Property and Assignment Type that are compatible with EAD portal.
  - Not permitted on Cash-Out Refinances, 203 (k), new construction or construction-to-permanent loans.

Scope of Work, Statements of Assumptions and Limited Conditions, and Appraiser's Certifications with modified language must be used with desktop appraisal reports and exterior-only appraisal reports. See [FHA model certifications](#).

- Purchase Transactions may utilize an Exterior-Only or Desktop-Only
  - Not permitted for New Construction, Construction to Permanent, Build on Own Land and 203(k).
  - Desktop-Only appraisals are not permitted with effective dates after October 31, 2020. Refer to [ML 2020-37](#).
  - [ML 2021-06](#) extends the use of Exterior-Only appraisal with effective date on or before **June 30, 2021**.
- Refinance Transactions may utilize an Exterior-Only
  - Not permitted for Cash out or 203(k)

**Repair Inspections Alternative:** A letter signed by the borrower confirming that the work was completed is acceptable; and

- Further evidence of completion, which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation.
- Not permitted for new construction, construction to permanent, building on own lands, and 203(k) transactions.

**Housing Obligations / Mortgage Payment History:** For FHA transactions and due to the CARES Act, AFR requires additional documentation for all borrower(s) who have existing mortgage obligations to ensure those obligations are current. Documentation includes the following:

- 12-month payment history provided by the servicer(s) for each existing mortgage, or
- Third-party verification service to confirm 12-month mortgage/rent payment history.

Note: Follow current 4000.1 for Housing Obligations/Mortgage Payment History requirements.

**Rental Income Used to Qualify:** For case number assignment on or after **8/12/2020 through 6/30/2021** AFR will following guidance announced in [ML – 2020-24](#) and extended in [ML 2020-40](#), [ML 2020-46](#) and [ML 2021-07](#) where a borrower is qualifying utilizing rental income, for each property generating rental income the lender must either:

- Reduce the effective income associated with the calculation of rental income by 25%, or
- Verify 6 months PITI reserves, or
- Verify the borrower has received the previous 2 months rental payments as evidenced by borrower's bank statements showing the deposit. (This option is applicable only for borrowers with a history of rental income from the property).

Note: Follow all other guidelines outlined in 4000.1

**Pervious Mortgage Payment Forbearance ([ML 2020-30](#))**





	<p>Borrower(s) who experience significant reduction in income due to either a Presidentially Declared Major Disaster (PDMD), or some other hardship including the COVID-19 National Emergency and was granted Mortgage Payment Forbearance is eligible for a new FHA insured mortgage provided:</p> <ul style="list-style-type: none"> <li>• The borrower continued to make regularly schedule payment and the Forbearance Plan is terminated, or</li> <li>• For Cash-Out refinances, the borrower has completed the Forbearance Plan and made at least 12 consecutive monthly payments post forbearance; or</li> <li>• For Purchase and No Cash-Out refinances, the borrower has completed the Forbearance Plan and made at least three consecutive monthly payments post forbearance; or</li> <li>• For Credit Qualifying Streamline refinance, the borrower has completed the Forbearance Plan and made less than three consecutive monthly payments post forbearance; and</li> <li>• For all Streamline refinance transactions, the borrower has made at least six payments on the FHA-insured mortgage being refinanced (where the FHA insured Mortgage has been modified after forbearance, the Borrower must have made at least six payments under the Modification).</li> </ul> <p><b>See ML 2020-30 for documentation requirements per transaction type.</b></p>
<h3>OVERLAYS</h3>	
<p><b>Borrower</b></p>	<ul style="list-style-type: none"> <li>• AFR does not permit nonprofit organizations and state and local government agencies to purchase rental properties</li> <li>• A borrower may not own more than 4 financed properties</li> <li>• AFR requires each MyLoanCenter account (borrower, co-borrower, spouse, third party, etc.) to have a unique email address regardless of their marital status.</li> </ul>
<p><b>Credit</b></p>	<ul style="list-style-type: none"> <li>• 1 credit score required for all qualifying borrowers. Use the middle score if 3 credit scores or the lower of the two if 2 credit scores. Lowest representative score from all borrowers will be used for qualification purposes.</li> <li>• AFR does not permit &lt;620 FICOs on Refers or Manual Underwrites.</li> <li>• Any FHA loan that requires a manual underwrite (Refer/Eligible AUS Recommendation or Underwriting Downgrade) will have a maximum debt-to-income (DTI) of <b>31/43%</b>. Reminder: If the loan requires a manual underwrite and the income ratios are 31/43% or less, you must still follow the FHA 4000.1 to meet the additional compensating factors as required by FHA.</li> <li>• Mortgage Credit Rejects, Mortgage Sanctions and defaulted CAIVRS are not permitted</li> <li>• Non-traditional credit is not permitted with the exception of Correspondent Delegated UW transactions that have an AUS Approve/Eligible or Accept recommendation.</li> <li>• Housing History:             <ul style="list-style-type: none"> <li>○ AFR will allow a 1x30 on a Rate and Term Refinance (R/T) transaction if the late was over 3 months prior to the date of the case number on Approve/Eligible or Accept/Eligible automated underwriting results. (Rate and Term Refinances Transactions with a Refer or Manual Downgrade will require a 0x30 for 12 months housing history.</li> <li>○ DU/LPA must be an Approve/Eligible or Accept/Eligible. If the automated underwriting results do not recognize the mortgage history, including, but not limited to situations where the mortgage is not reporting on credit or if the underwriter manually downgrades the file, mortgage late payments within the previous 12 months is not allowed. Regardless of the automated underwriting results, an application with a recent mortgage late payment is subject to the DE Underwriter’s review and approval.</li> <li>○ As a reminder, if, in AFR’s judgement, the applicant does not have the ability or willingness to repay the loan, they can deny the file even if the application meets the written guidelines.</li> <li>○ <b>Reminder:</b> Purchase, Streamline Refinance and Cash-Out Refinance transactions requires a 0x30 for 12 months.</li> </ul> </li> <li>• AFR will permit a private VOR only if 12 months cancelled checks are provided to support documentation.</li> <li>• AFR will be following the guidance announced in ML 2016-08 dated 4/13/16 on calculating student loans.</li> <li>• New secondary financing not permitted</li> <li>• Refinancing of a Reverse Mortgage (HECM) is not permitted unless:             <ul style="list-style-type: none"> <li>○ The forward mortgage transaction is paying off a current Reverse Mortgage (HECM) when the applicant was not a party to the HECM and has either</li> </ul> </li> </ul>





	<p>inherited the property or is purchasing the property from the estate (i.e. HECM parties are deceased).</p>
<b>Property</b>	<ul style="list-style-type: none"> <li>• Automatic extensions (30 days) on FHA appraisals are not permitted. The appraisal validity period is 120 days beginning on the day the home is inspected by the FHA- approved appraiser.             <ul style="list-style-type: none"> <li>○ Appraisal Validity period can only be extended if client provides a Value update on Appraisal form FNMA 1004D completed PRIOR to the expiration date of the original appraisal, which will extend appraisal expiration for an additional 90 days (Maximum validity period is 210 days)</li> </ul> </li> <li>• Escrow holdbacks not permitted with the exception of cold weather (adverse weather) related repairs.</li> <li>• Non-traditional heating methods (solar, wood burning stoves, etc.) <u>without</u> a heating back up source are not permitted.</li> <li>• AFR does not permit the use of a plat mat in lieu of a survey if a survey is required</li> <li>• AFR requires the use of AFR's Texas counsel on all Texas transactions with the exception of Correspondent Delegated loans. AFR utilizes this 3<sup>rd</sup> party for document preparation and require 48 hours for both title review and to generate a closing package.</li> <li>• AFR has a maximum 2% Deductible of the policy coverage for HOI.</li> <li>• AFR will not permit a property with an individual residential water purification system</li> <li>• The following property types are not permitted:             <ul style="list-style-type: none"> <li>• 3 Units</li> <li>• 4 Units</li> <li>• DELRAP Approved Condominiums</li> <li>• Co-Ops</li> <li>• Mixed- Use</li> <li>• Manufactured Housing that has been moved and/or traded</li> <li>• Properties with commercial influence are subject to additional review.                 <ul style="list-style-type: none"> <li>▪ Any property where marijuana is grown or processed inside the home or on the property, regardless of the quantity or state law is unacceptable</li> </ul> </li> </ul> </li> <li>• AFR will not permit properties with more than 100 acres</li> <li>• If the utilities are off at the time of the inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then a pressure test and electrical test is required and must be completed by an appropriately licensed professional.</li> <li>• AFR requires a disaster report completed by a licensed appraiser on all properties on all transactions in a Presidentially Declared Disaster Area with individual assistance. If the loan is closed, AFR may require this report up to 60 days after the date of the disaster declaration. If the loan has not already closed and funded, AFR will not close or fund until the inspection report is completed to AFR's satisfaction. In all cases, the inspection must be dated after the affected incident period. The disaster report must comply with applicable agency guidelines. On a case-by-case basis AFR may allow a loan to close and fund if the incident period was declared more than 14 days prior to the scheduled closing date. Originators are responsible for determining potential impact to a property located in an area where a disaster is occurring or has occurred. This is regardless of whether a property was included in the area covered by the declaration. If an originator has reason to believe that a property might have been damaged in a disaster the originator must work with AFR to ensure that the property is free from damage. Please note, that due to the nature of natural disasters AFR may amend this policy and add additional restrictions at any time without notice.</li> </ul>
<b>Assets</b>	<ul style="list-style-type: none"> <li>• All loans that have a purchase money grant/silent (or soft) second <b>must</b> get an approval from the AFR Underwriting Management prior to underwriting approval/AFR purchase</li> <li>• AFR only permits family member to provide a gift of equity, in-laws are not permitted if the spouse is not part of the transaction</li> <li>• Trade Equity not permitted</li> <li>• Sweat Equity not permitted</li> <li>• Trade-Ins not permitted</li> <li>• Private Savings Clubs or Pooled Savings Accounts are not permitted</li> <li>• Cash on hand is not permitted</li> </ul>
<b>Income</b>	<ul style="list-style-type: none"> <li>• Employer Assistance Plans not permitted</li> <li>• Employer Differential Payments not permitted</li> </ul>





	<ul style="list-style-type: none"> <li>• AFR requires a minimum of 2 years for the length of self-employment to use as income.</li> <li>• AFR does not permit voluntary agreements for child support, maintenance and alimony.</li> <li>• Marijuana income is unacceptable income regardless of state law</li> <li>• AFR does not permit amended tax returns if they are dated 90 days of application date. All amended tax returns must be more than 90 days of the application date and acknowledged (stamped and signed by the IRS or with the transcripts)</li> <li>• On a 2-unit purchase, owner occupied property where rental income on the rent unit is being used to qualify and when an Operating Income Statement from the Appraiser is being used to determine the market rent for each unit, AFR will use the lower of the 2 market rents for qualifying purposes.</li> </ul>
<p><b>Programs</b></p>	<ul style="list-style-type: none"> <li>• AFR does not participate in the following Programs:             <ul style="list-style-type: none"> <li>• Texas Equity Section 50(a)(6) Program</li> <li>• Energy Efficient Mortgage Program</li> <li>• Hope for Homeowners (H4H) Program</li> <li>• Negative Equity Positions Program (Short Refi)</li> <li>• Indian Land Program (Section 248)</li> <li>• Indian Home Loan Guarantee Program (Section 184)</li> <li>• Home Equity Conversion Mortgage (HECM) Program (Section 255)</li> <li>• Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs) Program (Section 245(a))</li> <li>• Single Family Cooperative Program (Section 203(n))</li> <li>• Home Mortgage Insurance for Outlying Areas Program (Section 203(i))</li> <li>• HUD Section 8 Homeownership Program</li> <li>• Government Assistance Programs</li> <li>• Housing Assistance Program</li> <li>• Back to Work Program</li> </ul> </li> <li>• AFR permits CEMA transactions on NY properties             <ul style="list-style-type: none"> <li>○ No prior CEMA's allowed.</li> <li>○ AFR requires an approved closing attorney in NY to conduct all NY settlements. You or the borrower may choose from the list below:                 <ul style="list-style-type: none"> <li>▪ Richard H. Lovell, Esq. - (Closing all transactions, including CEMA)</li> <li>▪ Jared Kaplan, Esq. - (Closing all transactions, including CEMA)</li> </ul> </li> </ul> </li> </ul>
<p><b>Ownership Types</b></p>	<p>The following are ineligible for submitting/delivery to AFR:</p> <ul style="list-style-type: none"> <li>• Life Estate</li> <li>• Blind Trusts</li> <li>• Irrevocable Trusts</li> <li>• 1031 Exchanges</li> <li>• LLCs, Corporations and Partnerships</li> <li>• Community Land Trusts</li> <li>• Leasehold – Manufactured Housing</li> </ul> <p>Vesting on the title commitment must remain unchanged/unaltered through the life of the loan. Any title transfer must be completed/recorded prior to the application.</p>
<p><b>Compliance</b></p>	<ul style="list-style-type: none"> <li>• AFR's Net Tangible Benefit Policy/Recoupment Policy             <ul style="list-style-type: none"> <li>○ See AFR Resource Center for AFR Policy/State Requirements/Forms</li> <li>○ When a state has a more restrictive recoupment policy, this policy must be met</li> </ul> </li> <li>• . All NY Loans must be tested the time the commitment is prepared.             <ul style="list-style-type: none"> <li>○ If the APR at the time of commitment cannot be determined AFR will not proceed with or purchase a Correspondent (Table Funded, Non-Delegated UW or Delegated UW loan).</li> </ul> </li> <li>• Any loan that is classified as a Rebuttable Presumption must have all HPML provisions applied. AFR follows FHA Residual Income requirements found in the 4000.1. <b>Note:</b> The residual income requirements are not applicable on Correspondent Delegated UW transactions.</li> <li>• Any loan that is classified as a Higher-Priced Mortgage Loan (HPML) must have <u>all</u> HPML provisions applied. AFR follows Regulation Z requirements for Higher-Priced Mortgage loans.             <ul style="list-style-type: none"> <li>○ Loans must have an ability to repay (loan must be full income/credit qualifying transaction)</li> <li>○ Loan must have an established escrow account (with the exception of Condos and PUDs where the consumer must participate in a governing association that</li> </ul> </li> </ul>





	<p>is required to purchase a master policy insuring all dwellings) – see the TILA HPML Escrow Rule for more guidance.</p> <ul style="list-style-type: none"> <li>○ Loan cannot have a prepayment penalty (AFR does not permit prepayment penalties)</li> <li>• File remains subject to all Qualified Mortgage (“QM”) and Ability-to-Repay (“ATR”) underwriting guidelines, including Points and Fees thresholds through consummation. AFR will not originate, close, fund, or purchase any loan that is not legally deemed as a QM.</li> <li>• All loans must provide evidence of the borrower’s compliance of QM/ATR with a compliance report. <b>Note:</b> Correspondent Delegated UW transactions must have a compliance report evidencing compliance.</li> <li>• All loans must provide evidence of the borrower’s ability to repay with a fully completed/executed Ability to Repay Worksheet. <b>Note:</b> Correspondent Delegated UW transactions must have a fully completed/executed Ability to Repay Worksheet showing evidence the borrower meets the ability to repay requirements.</li> <li>• AFR will not originate loans as a high cost or predatory mortgage loan</li> <li>• AFR will comply in all respects with CFPB’s Rule on TILA-RESPA Integrated Disclosures. AFR will not originate, close, fund, or purchase any loan that does not adhere to the Rule.</li> </ul>
<p><b>Miscellaneous</b></p>	<ul style="list-style-type: none"> <li>• Escrow Waivers not permitted</li> <li>• Temporary Interest Rate Buydowns not permitted</li> <li>• Gap Letters for Title are not permitted</li> <li>• Prepayment penalties are not permitted</li> <li>• <b>Maximum Cash Out:</b> For Approve/Eligible AUS recommendations, follow findings; for Refer AUS recommendations or manual underwrites \$100,000.</li> <li>• AFR requires all Correspondent Delegated (CDE) transactions to be purchased within 90 days of the Note date.</li> </ul>
<p><b>Disclaimer</b></p>	<p>All overlays herein are subject to change by AFR without notice. Where AFR is silent the UW must follow FHA guidelines outlined in the 4000.1</p>

