

Chapter 2. Maximum Mortgage Amounts/Cash Investment Requirements on Purchase Transactions

Table of Contents

Section A. Calculating Maximum Mortgage Amounts on Purchase Transactions

Overview	2-A-1
1. Maximum Mortgage Amounts on Purchases	2-A-2
2. Calculating Maximum Mortgage Amounts on Purchases.....	2-A-4
3. Interested Third Party Contributions	2-A-6
4. Inducements to Purchase	2-A-8
5. Additions to the Mortgage Amount for Repair and Improvement	2-A-11

Section B. Transactions Affecting Maximum Mortgage Calculations

Overview	2-B-1
1. General Information on Transactions Affecting Maximum Mortgage Calculations	2-B-2
2. Identity-of-Interest Transactions	2-B-3
3. Non-Occupying Borrowers	2-B-6
4. Transactions Involving Three and Four Unit Properties	2-B-8
5. Loan Transactions for Building on Own Land.....	2-B-10
6. Loan Transactions for Paying Off Land Contracts	2-B-12
7. Transactions Involving Properties For Proposed Construction, Under Construction or Existing Construction Less Than One Year Old.....	2-B-14
8. Manufactured Home Construction-Permanent Loans	2-B-17

Section A. Calculating Maximum Mortgage Amounts on Purchase Transactions

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Maximum Mortgage Amounts on Purchases	2-A-2
2	Calculating Maximum Mortgage Amounts on Purchases	2-A-4
3	Interested Third Party Contributions	2-A-6
4	Inducements to Purchase	2-A-8
5	Additions to the Mortgage Amount for Repair and Improvement	2-A-11

1. Maximum Mortgage Amounts on Purchases

Introduction This topic contains information on maximum mortgage amounts for purchasing property, including

- the maximum insurable mortgage
 - up-front mortgage insurance payments (UFMIP)
 - statutory loan limits, and
 - loan-to-value (LTV) limits.
-

Change Date March 10, 2010

**4155.1 2.A.1.a
Maximum
Insurable
Mortgage**

The maximum insurable mortgage is the lesser of the

- statutory loan limit for the area (typically a county, or metropolitan statistical area (MSA), or
- applicable loan-to-value (LTV) limit, applied to the lesser of
 - the sales price, or
 - the appraised value.

The Department of Housing and Urban Development (HUD) issues a Mortgagee Letter (ML) announcing the new mortgage limits every year.

**4155.1 2.A.1.b
Up-Front
Mortgage
Insurance
Payments**

Most Federal Housing Administration (FHA) mortgages require the payment of an up-front mortgage insurance premium (UFMIP). The statutory loan amounts and LTV limits discussed in this handbook do not include the UFMIP.

Continued on next page

1. Maximum Mortgage Amounts on Purchases, Continued

**4155.1 2.A.1.c
Statutory Loan
Limits** Statutory loan amount limits vary by program and the number of family units within the dwelling.

References:

- For current FHA standard and high-cost area mortgage limits, see
 - the Department of Housing and Urban Development (HUD) Web site at www.hud.gov, or
 - the FHA Connection at <https://entp.hud.gov/clas/>.
 - For information on the effect that secondary financing has on loan limits, see [HUD 4155.1 5.C](#).
-

**4155.1 2.A.1.d
LTV Limits** The determination of the maximum LTV percentage available to the borrower is influenced by

- the particular mortgage insurance program
- the property type (for example, new or existing construction), and
- various transactions that affect the maximum mortgage calculation, as described in [HUD 4155.1 2.B](#).

Once determined, the LTV percentage is then applied to the lesser of the sales price or the appraised value in order to determine the maximum insurable mortgage.

References: For more information on

- calculating maximum mortgage amounts, see [HUD 4155.1 2.A.2](#)
 - transactions that affect maximum mortgage calculations, see [HUD 4155.1 2.B](#), and
 - the effect of secondary financing on LTV limits, see [HUD 4155.1 5.C.5](#).
-

2. Calculating Maximum Mortgage Amounts on Purchases

Introduction This topic contains information on how to calculate maximum mortgage amounts on purchases, including

- the maximum mortgage calculation
- maximum LTV percentages for purchase transactions for proposed/existing construction
- the borrower required investment on a purchase transaction
- the policy on closing costs, and
- credit card payment for the appraisal/credit report.

Change Date March 10, 2010

**4155.1 2.A.2.a
Maximum
Mortgage
Amount
Calculation** The maximum mortgage amount that FHA will insure is calculated by multiplying the appropriate LTV factor by the lesser of the property's

- sales price, subject to certain required adjustments, or
- appraised value.

In order for FHA to insure this maximum loan amount, the borrower must make a required investment of at least 3.5 percent of the lesser of the appraised value of the property or the sales price.

References: For more information on

- required adjustments to the sales price, see
 - [HUD 4155.1 2.A.3](#)
 - [HUD 4155.1 2.A.4](#), and
 - [HUD 4155.1 2.A.5](#)
 - the maximum LTV percentage on purchases for proposed and existing construction, see [HUD 4155.1 2.A.2.b](#), and
 - requirements for the borrower minimum cash investment, see [HUD 4155.1 2.A.2.c](#).
-

Continued on next page

2. Calculating Maximum Mortgage Amounts on Purchases, Continued

**4155.1 2.A.2.b
Maximum LTV
for Proposed/
Existing
Construction** For purchase transactions, the maximum LTV is 96.5 percent (that is, the reciprocal of the 3.5 percent required investment).

**4155.1 2.A.2.c
Borrower
Required
Investment on a
Purchase
Transaction** The borrower must make a required investment at least equal to 3.5 percent of the lesser of the appraised value of the property or the sales price.

**4155.1 2.A.2.d
Policy on
Closing Costs** Closing costs (non-recurring closing costs, pre-paid expenses, and discount points) may *not* be used to help meet the minimum 3.5 percent required investment.

**4155.1 2.A.2.e
Credit Card
Payment for
the Appraisal/
Credit Report** The borrower may use a credit card to pay for the appraisal and credit report. These costs cannot be considered to help meet the required investment.

3. Interested Third Party Contributions

Introduction This topic contains information on the effect of contributions by interested third parties on calculating the maximum mortgage amount, including

- a definition of third party contribution
 - interested third party contribution amounts
 - charges not considered interested third party contributions, and
 - treatment of amounts exceeding contribution limit.
-

Change Date March 10, 2010

4155.1 2.A.3.a Definition: Third Party Contribution A *Third Party Contribution* is a payment by a seller and/or an interested third party, or a combination of parties toward the borrower's costs to close.

Reference: For a more detailed definition of the term third party contribution, see [HUD 4155.1 9](#) (Glossary).

Continued on next page

3. Interested Third Party Contributions, Continued

**4155.1 2.A.3.b
Interested
Third Party
Contribution
Amounts**

The seller and/or third party may contribute up to six percent of the *lesser of* the property's sales price or the appraised value toward the buyer's closing costs, prepaid expenses, discount points and other financing concessions.

The six percent limit also includes

- third party payment for permanent and temporary interest rate buydowns, and other payment supplements
- payments of mortgage interest for fixed rate mortgages
- mortgage payment protection insurance, and
- payment of UFMIP.

Note: Contributions exceeding six percent are considered inducements to purchase.

Reference: For information on inducements to purchase, see [HUD 4155.1 2.A.4.](#)

**4155.1 2.A.3.c
Charges Not
Considered
Interested
Third Party
Contributions**

Payment of real estate commissions or fees, typically paid by the seller under local or state law or local custom, is not considered an interested third party contribution.

**4155.1 2.A.3.d
Treatment of
Amounts
Exceeding
Contribution
Limit**

Each dollar that exceeds the 6 percent limit discussed in [HUD 4155.1 2.A.3.b](#) must be subtracted from the property's sales price before applying the appropriate LTV factor.

Reference: For information on the maximum LTV percentage on purchases for existing and proposed construction, see [HUD 4155.1 2.A.2 b.](#)

4. Inducements to Purchase

Introduction This topic contains information on inducements to purchase that are used when calculating the maximum mortgage amounts, including

- payments considered inducements to purchase
 - personal property inducements, and
 - conditions for subtracting sales commissions.
-

Change Date March 10, 2010

4155.1 2.A.4.a Payments Considered Inducements to Purchase Certain expenses, paid by the seller and/or an interested third party, on behalf of the borrower, are considered “inducements to purchase” and result in a dollar-for-dollar reduction to the *lesser of* the sales price or appraised value of the property before applying the appropriate LTV factor. These expenses include

- contributions exceeding 6 percent of the sales price
- contributions exceeding the actual cost of prepaid expenses, discount points, and other financing concessions
- decorating allowances
- repair allowances
- moving costs, and
- other costs as determined by the appropriate HOC.

Note: A dollar-for-dollar sales price reduction is also required for

- excess rent credit, as described in [HUD 4155.1 5.B.6.f](#), and
 - gift funds not meeting the requirements described in [HUD 4155.1 5.B.5](#).
-

Continued on next page

4. Inducements to Purchase, Continued

**4155.1 2.A.4.b
Personal
Property
Inducements**

Personal property given by a seller and/or an interested third party to consummate the sale of a property results in a reduction in the mortgage amount. The value of the item(s) *must* be deducted from the *lesser of* the sales price or appraised value of the property before applying the LTV factor.

Depending on local custom or law, certain items may be considered as part of the real estate transaction with no adjustment to the sales price or appraised value. The table below describes how to determine if personal property affects the sales price or appraised value.

If the personal property item is a ...	Then ...
<ul style="list-style-type: none"> • car • boat • riding lawn mower • furniture, or • television 	deduct the value of the item(s) from the sales price and appraised value before applying the LTV factor.
<ul style="list-style-type: none"> • range • refrigerator • dishwasher • washer • dryer • carpeting • window treatment, or • other items determined appropriate by the Homeownership Center (HOC) 	the HOC determines if the items are considered customary and affect the value of the property before applying the LTV factor. <i>Exception:</i> Replacement of existing equipment or other realty items by the seller before closing, such as carpeting or air conditioners, does not require a value adjustment provided that a cash allowance is <i>not</i> given to the borrower.

Continued on next page

4. Inducements to Purchase, Continued

4155.1 2.A.4.c Conditions for Subtracting Sales Commissions

Sales commissions paid by an interested third party on a borrower's present residence can be considered inducements to purchase, and should be subtracted from the sales price before applying the LTV factor.

The table below describes the conditions under which a sales commission is subtracted from the sales price before applying the LTV factor.

If ...	Then ...
<p>the seller and/or interested third party agrees to pay any portion of the borrower's sales commission on the sale of the borrower's present residence</p>	<ul style="list-style-type: none"> • treat the amount paid by the interested third party as an inducement to purchase, and • subtract dollar-for-dollar the amount paid by the seller or builder from the <i>lesser of</i> the sales price or appraised value before applying the LTV factor.
<ul style="list-style-type: none"> • a borrower is not paying a real estate commission on the sale of his/her present home • the same real estate broker or agent is involved in both transactions, and • the seller of the property being purchased by the buyer is paying a real estate commission that exceeds what is typical for the area 	<ul style="list-style-type: none"> • treat the amount of commission paid by the seller that exceeds what is typical for the area as an inducement to purchase, and • deduct that amount, dollar-for-dollar, from the <i>lesser of</i> the sales price or appraised value before applying the LTV factor.

5. Additions to the Mortgage Amount for Repair and Improvement

Introduction This topic contains information on adjustments to the mortgage amount, either through allowable additions to the sales price or direct additions to the mortgage amount, including

- the policy on adding repair and improvement costs to the sales price
 - the repair and improvement amount that can be added to the sales price
 - repair and improvement exclusions
 - energy-related weatherization items
 - calculating the energy-related mortgage amount
 - when repairs and energy-related items cannot be completed prior to closing
 - adding solar energy system costs
 - a reference for more information on the mortgage amount on HUD REO sales with repair escrow, and
 - energy efficient mortgage calculation.
-

Change Date July 6, 2009

4155.1 2.A.5.a Policy on Adding Repair and Improvement Costs to Sales Price Repairs and improvements may be added to the sales price before calculating the mortgage amount when

- the repairs and improvements are
 - required by the appraiser as essential for property eligibility, and
 - paid by the borrower, and
- the sales contract or addendum identifies the borrower as responsible for
 - payment, and
 - completion of the repairs.

Important: Only repairs and improvements *required* by the appraiser may be included.

References: For information on

- the repair and improvement amount that can be added to the sales price, see [HUD 4155.1 2.A.5.a](#), and
 - repair and improvement exclusions, see [HUD 4155.1 2.A.5.c](#).
-

Continued on next page

5. Additions to the Mortgage Amount for Repair and Improvement, Continued

4155.1 2.A.5.b Repair and Improvement Amount That Can Be Added to Sales Price

The repair and improvement amount that may be added to the sales price before calculating the maximum mortgage amount is the lowest of the

- amount that the value of the property exceeds the sales price
 - the appraiser's estimate of repairs and improvements, or
 - the amount of the contractor's bid, if available.
-

4155.1 2.A.5.c Repair and Improvement Exclusions

Repairs and improvements completed by the borrower *before* the appraisal are *not* eligible to be included when calculating the maximum mortgage. This amount becomes part of the borrower's required cash investment.

4155.1 2.A.5.d Energy-Related Weatherization Items

The mortgage amount may be increased if the cost of energy-related weatherization items paid by the borrower is added to the property. Examples of energy-related weatherization items include

- thermostats
- insulation
- storm windows and doors, and
- weather stripping and caulking.

These items may be added to both the sales price and the appraised value before determining the maximum mortgage amount.

Note: A contractor's statement of the cost of work completed, or a buyer's estimate of the cost of materials must be submitted.

Reference: For information on cost estimates and statements of costs of work for weatherization items, see [HUD 4150.1 REV-1](#), *Valuation Analysis for Home Mortgage Insurance*.

Continued on next page

5. Additions to the Mortgage Amount for Repair and Improvement, Continued

4155.1 2.A.5.e Calculating the Energy-Related Mortgage Amount

The energy-related amount that can be added when calculating the maximum mortgage amount is either

- \$2,000 without a separate value determination
 - up to \$3,500, if supported by a value determination by an approved FHA roster appraiser or Direct Endorsement (DE) Underwriter, or
 - more than \$3,500
 - subject to a value determination by an approved FHA roster appraiser or DE Underwriter, and
 - with a separate on-site inspection made by a FHA-approved fee inspector or DE staff appraiser.
-

4155.1 2.A.5.f When Energy Related Items Cannot Be Completed Prior to Closing

If repairs and energy-related items cannot be completed before loan closing due to weather-related delays, the lender *must* establish an escrow account to ensure all required repairs are eventually completed.

References: For more information on

- repairs and improvements, see [HUD 4145.1, REV-2, Architectural Processing and Inspections for Home Mortgage Insurance](#), and
 - satisfying repair requirements, see [HUD 4155.2 4.6](#).
-

Continued on next page

5. Additions to the Mortgage Amount for Repair and Improvement, Continued

4155.1 2.A.5.g Adding Solar Energy System Costs

The cost of solar energy systems may be added directly to the mortgage amount before adding the UFMIP, and after applying the LTV factor limits.

The amount added is limited to the lesser of the solar energy system's

- replacement cost, or
- effect on the property's market value.

The statutory mortgage limit for the area also may be exceeded by 20 percent to accommodate the cost of the system.

Note: Active and passive solar systems, as well as wind-driven systems are acceptable.

Reference: For more information on adding solar energy system costs, see [HUD 4150.1 REV-1](#), *Valuation Analysis for Home Mortgage Insurance*.

4155.1 2.A.5.h Mortgage Amount for HUD REO Sales With Repair Escrow (Reference)

For information on calculating the mortgage amount for HUD REO sales with repair escrow, see [HUD 4155.1 6.A.10.a](#).

4155.1 2.A.5.i Energy Efficient Mortgage Calculation

If the energy efficient improvements are “cost effective” as determined by the lender based upon the report from the HERS or energy consultant, 100 percent of the cost of the energy efficient improvements (subject to certain limits) may be added to the mortgage amount.

Reference: For more information on the mortgage calculation for the Energy Efficient Mortgage Program, see [HUD 4155.1 6.D](#).

Section B. Transactions Affecting Maximum Mortgage Calculations

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on Transactions Affecting Maximum Mortgage Calculations	2-B-2
2	Identity of Interest Transactions	2-B-3
3	Non Occupying Borrowers	2-B-6
4	Transactions Involving Three and Four Unit Properties	2-B-8
5	Loan Transactions for Building on Own Land	2-B-10
6	Loan Transactions for Paying Off Land Contracts	2-B-12
7	Transactions Involving Properties for Proposed Construction, Under Construction or Existing Construction Less Than One Year Old	2-B-15
8	Manufactured Home Construction-Permanent Loans	2-B-17

1. General Information on Transactions Affecting Maximum Mortgage Calculations

Change Date May 10, 2009

**4155.1 2.B.1.a
Types of
Transactions**

Certain types of loan transactions affect the amount of financing available to a borrower, and determine how to calculate the maximum mortgage amount.

The types of transactions include

- identity-of-interest
- properties with non-occupying coborrowers
- three- and four-unit properties
- properties where a house will be constructed by a borrower
 - on his/her land, and/or
 - as a licensed general contractor
- payoffs of land contracts, and
- transactions involving properties
 - under construction, or
 - less than a year old.

Note: Unless otherwise stated in this handbook, the mortgage calculation procedures described in [HUD 4155.1 2.A.2](#) also apply.

2. Identity of Interest Transactions

Introduction This topic contains information on identity-of-interest transactions, including

- the definition of the term identity-of-interest transaction
 - maximum LTV factor on identity-of-interest transactions, and
 - exceptions to the maximum LTV factor for identity-of-interest transactions.
-

Change Date March 10, 2010

**4155.1 2.B.2.a
Definition:
Identity of
Interest
Transaction** An *identity of interest transaction* is a sales transaction between parties with family or business relationships.

Reference: For a more detailed definition of identity of interest transaction, see [HUD 4155.1 9](#) (Glossary).

**4155.1 2.B.2.b
Maximum LTV
Factor on
Identity of
Interest
Transactions** The maximum LTV factor for identity of interest transactions on principal residences is restricted to 85 percent.

Continued on next page

2. Identity of Interest Transactions, Continued

4155.1 2.B.2.c Exceptions to the Maximum LTV Factor for Identity of Interest LTV Transactions

Maximum financing above the 85 percent is permitted under certain circumstances. The table below describes circumstances in which financing above the 85 percent is permitted.

Exception	Description
Family Member Purchase	<p>A family member purchases another family member's home as a principal residence. If the property is sold from one family member to another and is the seller's investment property, the maximum mortgage is the lesser of</p> <ul style="list-style-type: none"> • 85 percent of the appraised value, or • the appropriate LTV factor percentage applied to the sales price, plus or minus required adjustments. <p><i>Note:</i> The 85% limit may be waived if the family member has been a tenant in the property for at least six months immediately predating the sales contract. A lease or other written evidence must be submitted to verify occupancy.</p> <p><i>Reference:</i> For a definition of the term "family member," see HUD 4155.1 9 (Glossary).</p>
Builder's Employee Purchase	An employee of a builder purchases one of the builder's new homes or models as a principal residence.

Continued on next page

2. Identity of Interest Transactions, Continued

4155.1 2.B.2.c Exceptions to the Maximum LTV Factor for Identity of Interest LTV Transactions (continued)

Exception	Description
<p>Tenant Purchase</p>	<p>A current tenant, including a family member tenant, purchases the property where he/she has rented for at least six months immediately predating the sales contract.</p> <p><i>Note:</i> A lease or other written evidence to verify occupancy is required.</p> <p>The maximum mortgage calculation is not affected by a sales transaction between a tenant and a landlord with no identity of interest relationship.</p>
<p>Corporate Transfer</p>	<p>A corporation</p> <ul style="list-style-type: none"> • transfers an employee to another location • purchases the employee's home, and • sells the home to another employee.

3. Non Occupying Borrowers

Introduction This topic contains information on non-occupying borrowers, including

- the definition of the term “non-occupying borrower transaction”
 - maximum LTV factor for non-occupying borrower transaction
 - security instrument and note signature requirement
 - LTV for two to four unit properties, and
 - underwriting criteria for non-occupying borrowers.
-

Change Date March 10, 2010

**4155.1 2.B.3.a
Definition: Non
Occupying
Borrower
Transaction** A *non occupying borrower transaction* is a transaction involving two or more borrowers where one or more borrower(s) will not occupy the property as his/her primary residence.

Reference: For a more detailed definition of “non-occupying borrower transaction,” see [HUD 4155.1 9](#) (Glossary).

**4155.1 2.B.3.b
Maximum LTV
Factor for Non
Occupying
Borrower
Transaction** When there are two or more borrowers, but one or more will *not* occupy the property as a principal residence, the maximum mortgage is limited to a 75 percent LTV. However, maximum financing, as described in [HUD 4155.1 2.A.2](#), is available for

- borrowers related by blood, marriage, or law, such as
 - spouses
 - parent-child
 - siblings
 - stepchildren
 - aunts-uncles, and
 - nieces-nephews, or
- unrelated individuals that can document evidence of a family-type, longstanding, and substantial relationship *not arising out of the loan transaction*.

Note: If a parent is selling to a child, the parent cannot be the coborrower with the child, unless the LTV is 75 percent or less.

Continued on next page

3. Non Occupying Borrowers, Continued

**4155.1 2.B.3.c
Security
Instrument and
Note Signature
Requirement**

All borrowers, regardless of occupancy status, must sign the security instrument and mortgage note.

Note: Cosigners do not execute the security instrument or take title, but they must sign the mortgage note.

**4155.1 2.B.3.d
LTV for Two to
Four Unit
Properties**

To reduce risk exposure, mortgages with non-occupying borrowers are limited to one-unit properties if the LTV exceeds 75 percent. The non-occupying borrower arrangement to assist in financing a property may *not* be used to develop a portfolio of rental properties. The financial contribution by the non-occupying borrower and the number of properties owned may indicate that the family members are acting as “strawbuyers.”

**4155.1 2.B.3.e
Underwriting
Criteria for
Non Occupying
Borrowers**

FHA does not require that additional underwriting criteria, such as specific qualifying ratios, be met by either

- non-occupying borrowers, or
- occupying borrowers with sufficient credit.

However, additional FHA underwriting criteria *does* apply to occupying borrowers with insufficient credit.

Note: Lenders must judge each transaction on its merits.

Reference: For information on underwriting criteria for borrowers with insufficient credit, see [HUD 4155.1 4.C.3.c](#).

4. Transactions Involving Three and Four Unit Properties

Introduction This topic contains information on transactions involving three- and four-unit properties, including

- three and four unit property mortgage limit/self-sufficiency test
 - what is included in the monthly payment calculation for three and four unit properties
 - net rental income calculation for three and four unit properties, and
 - three and four unit property mortgage reserves.
-

Change Date March 10, 2010

**4155.1 2.B.4.a
Three and Four
Unit Property
Mortgage
Limit/Self-
Sufficiency Test** The maximum mortgage for three and four unit properties is limited, so that the ratio of the monthly mortgage payment, divided by the monthly net rental income does not exceed 100 percent, regardless of the occupancy status.

Form [HUD 92561](#), *Borrower's Contract with Respect to Hotel and Transient Use of Property* is required at application for all multi-unit properties.

Note: The calculations described in the remainder of this topic are *in addition* to the calculations found in [HUD 4155.1 2.A.](#)

**4155.1 2.B.4.b
What Is
Included in the
Monthly
Payment
Calculation for
Three and Four
Unit Properties** The monthly mortgage payment calculation for three and four unit properties includes the following:

- principal
- interest
- taxes
- insurance (Principle, Interest, Taxes, and Insurance - PITI), including monthly mortgage insurance, and
- homeowner association dues computed at the note rate, if applicable.

Reference: For more information on the maximum mortgage amounts, see

- [HUD 4155.1 2.A.1](#), and
 - [HUD 4155.1 2.A.2](#).
-

Continued on next page

4. Transactions Involving Three and Four Unit Properties, Continued

4155.1 2.B.4.c Net Rental Income Calculation for Three and Four Unit Properties

Net rental income for three and four unit property is calculated using the following formula:

- the appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy, and
- minus the greater of the
 - appraiser's estimate for vacancies, or
 - vacancy factor used by the jurisdictional HOC.

This net rental income calculation is used to determine the maximum loan amount. Borrowers must still qualify for the mortgage based on

- income
- credit
- cash to close, and
- projected rents received from remaining units.

Projected rent may only be considered gross income for qualifying purposes. It cannot be used to offset the monthly mortgage payment.

4155.1 2.B.4.d Three and Four Unit Property Mortgage Reserves

For three- and four-unit properties, the borrower *must* have personal reserves equivalent to three months' PITI after closing on purchase transactions. Reserves cannot be derived from a gift.

Reference: For information on

- mortgage reserves, see
 - [HUD 4155.1 4.E.5.d](#), and
 - [HUD 4155.1 4.F.3.b](#), and
 - TOTAL Scorecard and mortgage reserves, see the *TOTAL Mortgage Scorecard User Guide* at http://www.hud.gov/offices/hsg/sfh/lender/total_scorecard.cfm.
-

5. Loan Transactions for Building on Own Land

Introduction This topic contains information on loan transactions for building on land the borrower already owns, including

- financing limits when building on own land
 - LTV limits when building on own land, and
 - using equity when building on own land.
-

Change Date July 6, 2009

**4155.1 2.B.5.a
Financing
Limits When
Building on
Own Land** A borrower is eligible for maximum financing when he/she

- acts as a licensed general contractor and is building a home on land that he/she already owns or acquires separately, and
- receives no cash from the settlement.

**4155.1 2.B.5.b
LTV Limits
When Building
on Own Land** When building on a borrower's own property, the appropriate LTV limits are applied to the lesser of the

- appraised value of the proposed home and land, or
- documented cost of the property.

The documented cost of property includes the following:

- the builder's price, or sum of all subcontractor bids and materials
 - cost of the land (if the land has been owned more than six months or was received as an acceptable gift, the *value* of the land may be used instead of its cost), and
 - interest and other costs associated with any construction loan obtained by the borrower to fund construction of the property.
-

Continued on next page

5. Loan Transactions for Building on Own Land, Continued

4155.1 2.B.5.c Using Equity When Building on Own Land

Equity in the land (value or cost, as appropriate, minus the amount owed) may be used for the borrower's entire cash investment. However, if the borrower receives more than \$500 cash at closing, the loan is limited to 85 percent of the appraised value.

Replenishing the borrower's own cash expended during construction is *not* considered as "cash back," provided that the borrower can substantiate with cancelled checks and paid receipts all out-of-pocket funds used for construction.

4155.1 2.B.5.d Determining If the Borrower Has Made the Required Down Payment When Building on Own Land

In order to determine if a borrower has made the required 3.5 percent cash investment, or its equivalent in land equity when building on his/her own land, all such mortgage transactions must be summarized using only [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*.

Lenders are reminded that they must record the sum total of the *documented* cost of the property, including

- the builder's price, or the sum of all subcontractor costs, materials, etc.
- the cost of the land or, if owned for more than six months or was received as an acceptable gift, its appraised value, and
- interest and other costs associated with any construction loan obtained by the borrower to fund construction of the property.

Additionally, the calculated loan-to-value ratio (which is to be the same value used when seeking a risk clarification from FHA's TOTAL), must reflect, as it does on other purchase transactions, the lesser of

- the sales price, or
 - the appraised value.
-

6. Loan Transactions for Paying Off Land Contracts

Introduction This topic contains information on loan transactions to pay off land contracts, including

- financing limit when paying off land contracts
 - LTV factor when paying off land contracts, and
 - using equity when paying off land contracts.
-

Change Date March 10, 2010

**4155.1 2.B.6.a
Financing
Limit When
Paying Off
Land Contracts** If a borrower does *not* receive cash at closing, his/her new mortgage may be processed as a purchase or refinance transaction with maximum FHA-insured financing if he/she uses the loan to

- complete payment on a land contract
 - contract for deed, or
 - other similar type of financing arrangement in which the borrower does not have title to the property.
-

**4155.1 2.B.6.b
LTV Factor
When Paying
Off Land
Contracts** When the loan proceeds are used to pay the outstanding balance on the land contract and eligible repairs and renovations, if the property was acquired less than 12 months the LTV factor is applied to the *lesser* of the

- appraised value of the land and improvements, or
- total cost to acquire the property, which includes the original purchase price, plus any documented costs the borrower incurs for rehabilitation, repairs, renovation, or weatherization, closing costs and reasonable discount points, if treated as a refinance.

References: For additional information on

- refinances, see [HUD 4155.1 3.B.1](#), and
 - use of rent credits, see [HUD 4155.1 5.B.6.f](#).
-

Continued on next page

6. Loan Transactions for Paying Off Land Contracts, Continued

4155.1 2.B.6.c Using Equity When Paying Off Land Contracts

Equity in the property (original sales price minus the amount owed) may be used for the borrower's entire cash investment. However, if the borrower receives more than \$500 cash at closing, the loan is limited to 85 percent of the *lesser of*, if the property was acquired less than 12 months,

- appraised value of the land and improvements, or
- total cost to acquire the property, which includes the original purchase price, plus any documented costs the borrower incurs for rehabilitation, repairs, renovation, weatherization, closing costs and reasonable discount points, if treated as a refinance.

Replenishing the borrower's own cash expended for repairs, improvements, renovation, or weatherization is *not* considered as "cash back," provided that the borrower can substantiate with cancelled checks and paid receipts all out-of-pocket funds for the improvements.

7. Transactions Involving Properties for Proposed Construction, Under Construction or Existing Construction Less Than One Year Old

Introduction This topic contains information on transactions involving properties for proposed construction, under construction or with existing construction less than one year old, including

- financing limit, and
 - criteria for maximum financing.
-

Change Date March 10, 2010

4155.1 2.B.7.a Financing Limit Properties that are proposed, under construction or existing construction less than one year old are limited to 90 percent financing.

The 90 percent financing for properties proposed, under construction, or existing construction less than one year old is calculated by using the *lesser* of the

- appraiser's estimate of value, or
- sales price, plus or minus required adjustments for
 - seller contributions
 - inducements to purchase, and/or
 - additions to the mortgage amount.

Reference: For more information on required adjustments, see [HUD 4155.1 2.A.](#)

Continued on next page

7. Transactions Involving Properties for Proposed Construction, Under Construction or Existing Construction Less Than One Year Old, Continued

**4155.1 2.B.7.b
Criteria for
Maximum
Financing**

The table below describes the criteria that properties must meet to be eligible for greater than 90 percent financing, whether or not the property has been previously occupied.

One of those criteria must be evidenced in order for the borrower to be eligible for a high ratio mortgage.

Criteria	Description
Approval of Dwelling Site Plans	<p>The dwelling’s site plans and materials were approved before construction began by</p> <ul style="list-style-type: none"> • the Department of Veterans Affairs (VA) • an eligible DE underwriter, i.e. Conditional Commitment issued prior to framing, or • an early start letter issued by a DE underwriter.
Local Jurisdiction Building Permit and Certificate of Occupancy	<p>The local jurisdiction has issued both a</p> <ul style="list-style-type: none"> • building permit or equivalent prior to construction, and • Certificate of Occupancy or equivalent. <p><i>Note:</i> This does not apply to condominiums or manufactured housing. These properties have special circumstances for financing approval.</p>
Builder’s Warranty	<p>The dwelling is covered by a builder’s ten-year insured warranty plan that is acceptable to HUD.</p>
Dwelling Relocation	<p>The dwelling</p> <ul style="list-style-type: none"> • will be moved to a new location, and • is eligible for an insured mortgage at the new location based on approval of the dwelling site plan criteria listed previously in this table.

8. Manufactured Home Construction-Permanent Loans

Introduction	<p>This topic contains information on construction-permanent (CP) loans for manufactured homes, including</p> <ul style="list-style-type: none">• manufactured home CP loan is a purchase transaction• basic criteria for determining maximum mortgage amount for manufactured home CP loan• determining property status for a manufactured home• determining length of ownership for a manufactured home• formulas for determining maximum mortgage amount on a manufactured home CP loan• maximum mortgage calculation for manufactured home CP loan based on total cost or itemized value• maximum mortgage calculation for manufactured housing CP loan based on allowable LTV• maximum mortgage calculation for manufactured home CP loan based on existing indebtedness, and• additional concerns for calculating the maximum mortgage amount on manufactured home CP loan.
---------------------	---

Change Date	October 26, 2009
--------------------	------------------

4155.1 2.B.8.a Manufactured Home CP Loan is a Purchase Transaction	<p>For purposes of underwriting and calculating the maximum mortgage amount, the CP loan on a newly-constructed manufactured home should be considered a purchase loan transaction, requiring a minimum 3.5% cash investment of the Total Cost or Value (including land).</p>
---	---

To maintain consistency with FHA Connection data requirements and the Uniform Residential Loan Application, the purpose of the loan transaction should be designated as “CP.”

Reference: For more information on Construction Permanent loan characteristics and requirements, see [HUD 4155.1 6.A.](#)

Continued on next page

8. Manufactured Home Construction-Permanent Loans,

Continued

<p>4155.1 2.B.8.b Basic Criteria for Determining Maximum Mortgage Amount for Manufactured Home CP Loan</p>	<p>To determine the maximum insurable mortgage amount for a manufactured housing CP transaction, the lender must consider the</p> <ul style="list-style-type: none"> • property status • length of ownership, and • accepted formula to determine value. <p>The length of time the property was owned in a given property status will determine whether a transaction is considered a CP or refinance transaction. CP transactions involve manufactured homes with acceptable property status that are</p> <ul style="list-style-type: none"> • proposed for construction • under construction, or • existing construction less than 12 months old. <p>References: For more information on maximum mortgage amount calculations on refinance transactions see</p> <ul style="list-style-type: none"> • HUD 4155.1 3.A.1.i, and • HUD 4155.1 6.A.
<p>4155.1 2.B.8.c Determining Property Status for a Manufactured Home</p>	<p><i>Property status</i> refers to whether or not the property is classified or taxed as real property and whether the personal property title has been purged in compliance with state law.</p> <p>Reference: For more information on purging personal property title on a manufactured home, see HUD 4155.2 6.A.1.j.</p>
<p>4155.1 2.B.8.d Determining Length of Ownership for a Manufactured Home</p>	<p><i>Length of ownership</i> refers to how long the prospective borrower has held an ownership interest in the manufactured housing unit and land.</p>

Continued on next page

8. Manufactured Home Construction-Permanent Loans, Continued

4155.1 2.B.8.e Formulas for Determining Maximum Mortgage Amount on a Manufactured Home CP Loan

The accepted *formula to determine total cost or itemized value* refers to calculating the mortgage amount based on

- total cost or itemized value
- maximum allowable loan-to-value (LTV) percentages, and
- existing indebtedness.

The maximum insurable mortgage amount is determined by the lowest of the three calculations using the three formulas above.

In a CP transaction, itemized value should be applied when the manufactured home unit, the land, or both have been owned for 6 months or more, and less than 12 months. If either the unit or the land has been owned for less than 6 months, the lesser of total cost or itemized value should be applied.

Evidence must be provided to certify how long the borrower has owned the land and/or manufactured unit. A contract or payoff statement for the land is required if it is currently encumbered by a lien payable by the borrower.

References: For more information on the formulas used to determine the maximum mortgage amount on a manufactured home CP loan based on

- total cost or itemized value, see [HUD 4155.1 2.B.8.f](#)
- maximum allowable loan-to-value (LTV) percentages see [HUD 4155.1 2.B.8.g](#), and
- existing indebtedness, see [HUD 4155.1 2.B.8.h](#).

Continued on next page

8. Manufactured Home Construction-Permanent Loans, Continued

4155.1 2.B.8.f
Maximum
Mortgage
Calculation for
Manufactured
Home CP Loan
Based on Total
Cost or
Itemized Value

1. Mortgage Amount based on Total Cost or Itemized Value

a. Total Cost or Itemized Value:

Unit _____
Land _____

OR

Combined _____
Construction _____

Hard Costs _____
Soft Costs _____

Total Cost or Itemized Value Cost _____

b. Minimum Cash Investment:

Total Cost or Itemized Value from 1a
x 3.5% Required Statutory Investment _____

c. Subtract Minimum Cash Investment from Total Cost or Itemized Value

Amount based on Total Cost or Itemized Value (1a-1b) _____

4155.1 2.B.8.g
Maximum
Mortgage
Calculation for
Manufactured
Home CP Loan
Based on
Allowable LTV

2. Amount based on Maximum Allowable Loan-to-Value Percentages

Lesser of Total Cost or Itemized Value or Appraised Value x Applicable
Maximum Loan-to-Value Percentage: 96.5% for purchase transactions

Amount based on Maximum Allowable Loan-to-Value Percentages _____

Continued on next page

8. Manufactured Home Construction-Permanent Loans, Continued

4155.1 2.B.8.h **3. Amount Based on Existing Indebtedness**
Maximum
Mortgage
Calculation for
Manufactured
Home CP Loan
Based on
Existing
Indebtedness

Unit		_____
Less Trade-in		(_____)
Land		_____
Construction		
Hard Costs	_____	
Soft Costs	_____	
Borrower Paid:		
Discount Points	_____	
Prepays	_____	
Closing Costs	_____	

Amount Based on Existing Indebtedness =====

Continued on next page

8. Manufactured Home Construction-Permanent Loans,

Continued

**4155.1 2.B.8.i
Additional
Concerns for
Calculating the
Maximum
Mortgage
Amount on
Manufactured
Home CP Loan**

Financing on a manufactured home being constructed and installed is considered a construction loan or construction line-of-credit. Associated construction financing costs are to be itemized on a draw request or cost breakdown form. The file must include the contract or sales invoice for the manufactured home unit and the contract for the land.

The construction loan [hard] costs and construction loan financing [soft] costs must be identified. Lenders may obtain and provide information from the general contractor or another party who has knowledge of the related costs for completion of required work items.

The major installation charges require supporting documentation and separate invoices for the manufactured unit and the contractor's foundation and set-up costs. Razing and removing existing properties is considered part of the site preparation and may be included in the calculations as a component of the construction costs.

If the manufactured home dealer is the general contractor for the foundation and installation, the cost of the unit and additional charges must be itemized on an invoice. Aggregate amounts for total costs are not acceptable.
