

Chapter 1. Mortgage Insurance Program Overview

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Section A. General Information on FHA Mortgage Insurance Programs, the Mortgage Insurance Process, and Loan Origination Requirements/Restrictions

Overview

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

| Topic | Topic Name | See Page |
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| 1 | Overview of FHA Single Family Mortgage Insurance Programs | 1-A-2 |
| 2 | Overview of the Mortgage Loan Application and Insurance Endorsement Process | 1-A-7 |
| 3 | Restrictions on the Use of Non FHA-Approved Mortgage Brokers | 1-A-11 |

1. Overview of FHA Single Family Mortgage Insurance Programs

Introduction This topic contains an overview of the FHA single family mortgage insurance programs. It includes information on

- the purpose of FHA single family mortgage insurance programs
 - what FHA will and will not insure
 - enabling legislation for FHA's mortgage insurance programs
 - mortgage insurance funds
 - the Direct Endorsement (DE) Program, and
 - FHA insurance program documentation and education.
-

Change Date May 10, 2009

4155.2 1.A.1.a Purpose of FHA Mortgage Insurance Programs The Federal Housing Administration (FHA) offers various mortgage insurance programs, under which they insure approved lenders against losses on mortgage loans. FHA-insured mortgages may be used to purchase homes, improve homes, and to refinance existing mortgages.

Continued on next page

1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.b What FHA Will and Will Not Insure

FHA's programs differ from one another primarily in terms of what types of properties and financing are eligible. Except as otherwise stated in this handbook, FHA's single family programs are limited to one to four unit properties that are owner-occupied principal residences only. FHA insures mortgages on properties that consist of

- detached or semi-detached dwellings
- townhouses or row houses, or
- individual units with FHA-approved condominium projects.

FHA will *not* insure mortgages on

- commercial enterprises
- boarding houses
- hotels and motels
- tourist houses
- private clubs
- bed and breakfast establishments, or
- fraternity and sorority houses.

Reference: For more information on eligibility of primary and secondary residences, see [HUD 4155.1 4.B.](#)

Continued on next page

1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.c Enabling Legislation for FHA's Single Family Programs

All of the FHA's single family programs are authorized by the enabling legislation of Title II of the National Housing Act, and each program is generally referred to by its particular section of the Act (for example, Section 203(b), (the basic program), Section 251 (Adjustable Rate Mortgages (ARMs)), Section 234(c) Condominiums, etc.).

The regulations implementing the individual programs are contained in the Code of Federal Regulations (CFR), Title 24. The CFR codifies the general and permanent rules of the Department of Housing and Urban Development (HUD) and is updated by publishing changes to regulations in the Federal Register.

Reference: For information on specific mortgage insurance programs, see [HUD 4155.2 1.C.](#)

4155.2 1.A.1.d Mortgage Insurance Funds

In addition to the particular section of the National Housing Act that authorizes each single family mortgage insurance program, various characteristics of each program will reflect the particular insurance fund under which the program is insured.

The table below lists the three mortgage insurance funds and a description of the programs covered by each fund.

| Mortgage Insurance Fund | Description |
|--------------------------------------|--|
| Mutual Mortgage Insurance (MMI) Fund | The MMI fund covers most programs, including most of the programs authorized under Section 203(b). |
| General Insurance (GI) Fund | The GI fund covers, among other programs, Section 203(k) and condominiums under Section 234(c). |
| Special Risk Insurance (SRI) Fund | The SRI fund covers Section 223(e) and several others. |

Continued on next page

1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.e Direct Endorsement Program

Under FHA's DE program, approved lenders may underwrite and close mortgage loans without prior FHA review or approval. This includes all aspects of the mortgage loan application, the property analysis, and borrower underwriting.

Note: This assumes that the lender is a DE lender with unconditional approval. If the lender has only "conditional" FHA approval, and is in the Pre-Closing Review phase, then the lender must submit the loan to FHA for approval *prior* to closing the loan.

All FHA programs described in this handbook are eligible for DE processing *except*

- the Section 203(n), Single Family Cooperative program
- the Section 233, Mortgage Insurance for Experimental Housing program, and
- mortgage loans for HUD employees, with the exception of streamline refinances.

References: For more information on

- processing requirements of Mortgage Loan Applications, see [HUD 4155.2 3.C](#)
- the Section 203(n) program, see [HUD 4155.2 1.C.6](#)
- the Section 233 program, see [HUD 4155.2 1.C.10](#), and
- loans for HUD employees, see [HUD 4155.2 3.B](#).

Continued on next page

1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.f FHA Insurance Program Documentation and Education

HUD Handbooks and Mortgagee Letters provide detailed processing instructions and advise the mortgage industry of major changes to FHA programs and procedures. Additionally, the Home Ownership Centers (HOCs)

- issue Circular Letters
- conduct seminars
- lead industry meetings
- distribute other program information, and
- maintain online reference guides.

References:

- For HOC-specific information, see HUD's Web site at www.hud.gov.
 - For sample HUD forms, HUD Handbooks, and Mortgagee Letters, see HUD's Web site at www.hud.gov/hudclips/.
-

2. Overview of the Mortgage Loan Application and Insurance Endorsement Process

Change Date May 10, 2009

**4155.2 1.A.2.a
Loan
Application and
Endorsement
Process
Overview**

The table below describes the stages of the mortgage loan application and endorsement process.

| Stage | Description |
|-------|--|
| 1 | A borrower contacts a lender regarding a mortgage loan, and the lender determines if the loan would be eligible for FHA insurance. |
| 2 | <p>The borrower, along with the lender’s representative, completes the loan application. The loan officer collects all supporting documentation from the borrower and submits the application and documentation to the lender.</p> <p><i>Reference:</i> For more information on the standard application package and required documentation, see HUD 4155.2 3.C.</p> |
| 3 | <p>The lender applies for, and is assigned, an FHA case number through the FHA Connection.</p> <p><i>Reference:</i> For more information on the FHA Connection, see</p> <ul style="list-style-type: none"> • HUD 4155.2 1.D., and • the user guide in the FHA Connection. |

Continued on next page

2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

| Stage | Description |
|-------|--|
| 4 | <p>The lender</p> <ul style="list-style-type: none"> • assigns an appraiser through the FHA Connection to perform a property appraisal to determine the value of the property that is to be security for the mortgage loan, and • completes the appraisal logging in the FHA Connection. <p><i>Reference:</i> For more information on appraisals and property standards, see HUD 4155.2 4.</p> |
| 5 | <p>The lender</p> <ul style="list-style-type: none"> • instructs their underwriter to perform the mortgage credit analysis to determine the borrower's ability and willingness to repay the mortgage debt, and • enters the borrower income/credit information into FHA Connection. <p><i>Reference:</i> For more information on performing a mortgage credit analysis, see HUD 4155.1 4.C.</p> |
| 6 | <p>The underwriter makes the underwriting decision. If the loan is</p> <ul style="list-style-type: none"> • approved, the process continues with Stage 7, or • rejected <ul style="list-style-type: none"> – the borrower is notified, and – this completes the process. <p><i>Reference:</i> For more information on borrower approval and rejection notification, see HUD 4155.2 5.2.</p> |

Continued on next page

2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

| Stage | Description |
|-------|--|
| 7 | <p>Once the loan is approved, the lender closes the loan with the borrower.</p> <p>Reference: For more information on</p> <ul style="list-style-type: none"> • loan closing, see HUD 4155.2 6.A • DE Lender Program application, see HUD 4155.2 2.A, and • DE lender approval, see HUD 4155.2 2.B. |
| 8 | <p>After the loan is closed, the lender initiates the loan endorsement process.</p> <p>Lenders <i>not</i> participating in Lender Insurance Program (LIP)</p> <ul style="list-style-type: none"> • complete the Insurance Application function in FHA Connection • submit the case binder to the appropriate HOC for endorsement review • submit the case binder to the HOC in hard copy form. <p>Lenders participating in LIP</p> <ul style="list-style-type: none"> • insure the loan through FHA Connection, and • submit the case binder in either electronic format (eCB) or in hard copy form. <p>Notes:</p> <ul style="list-style-type: none"> • Participants in the LIP submit either a paper or electronic case binder (as appropriate) only when requested by the HOC. • The HOC may request the casebinder either because <ul style="list-style-type: none"> – a severe warning is displayed, or – a post-endorsement technical review (PETR) or appraisal review is required. <p>Reference: For more information on preparation and submission of the case binder, see HUD 4155.2 8.B.</p> |

Continued on next page

2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

| Stage | Description |
|-------|---|
| 9 | <p>Upon receipt of the case binder, the HOC</p> <ul style="list-style-type: none"> • logs the closing package into the FHA Connection • performs a pre-endorsement review, and • issues either the <ul style="list-style-type: none"> – Mortgage Insurance Certificate (MIC), or – Non-Endorsement Notice/Notice of Rejection (NOR). |
| 10 | <p>The HOC completes insurance endorsement processing using the logging and endorsement functions in the FHA Connection.</p> <p>Result: Once the loan is endorsed, FHA Connection generates an MIC for the lender to download from the FHA Connection.</p> <p>Reference: For more information on</p> <ul style="list-style-type: none"> • the MIC, see HUD 4155.2 8.C.6, and • FHA Connection, see <ul style="list-style-type: none"> – HUD 4155.2 1.D, and – the <i>FHA User Guide</i> on the FHA Connection. |
| 11 | <p>To ensure that mortgage lenders understand and comply with FHA requirements, selected case binders are chosen for a post-endorsement technical review (PETR) by the HOC.</p> <p>Reference: For more information on PETRs, see HUD 4155.2 9.C.</p> |

3. Restrictions on the Use of Non FHA-Approved Mortgage Brokers

| | |
|---|--|
| Introduction | <p>This topic contains information on the restrictions on the use of non FHA-approved mortgage brokers, including</p> <ul style="list-style-type: none"> • the FHA policy requiring the use of an FHA-approved lender or broker for loan origination • RESPA prohibition of duplicative fees • specific loan origination functions and services that must be provided by an FHA-approved lender or broker, and • services that may be provided by a non FHA-approved broker. |
| <hr/> | |
| Change Date | May 10, 2009 |
| <hr/> | |
| 4155.2 1.A.3.a FHA Policy Requiring the Use of an FHA Approved Lender or Broker for Loan Origination | <p>FHA loan origination services <i>must</i> be performed by either a</p> <ul style="list-style-type: none"> • FHA-approved lender, or • FHA-approved mortgage broker (loan correspondent). <p>An FHA-approved loan correspondent may be compensated for the actual loan origination services it performs either directly by the consumer or indirectly by the FHA-approved lender without being in violation of either the Real Estate Settlement Procedures Act (RESPA) statute and regulations or FHA regulations.</p> <p>Note: While FHA regulations permit a borrower to engage a broker who is not FHA-approved to assist him/her in obtaining mortgage financing, the loan origination services may not be performed by that broker and the FHA-approved lender may <i>not</i> compensate the broker for such services.</p> <p>Reference: For information on FHA's policy on a broker assisting a borrower in obtaining a mortgage, see 24 CFR 203.27(e).</p> |
| <hr/> | |
| 4155.2 1.A.3.b RESPA Prohibition of Duplicative Fees | <p>Under no circumstances may a borrower be charged a fee that is not commensurate with the amount normally charged for similar services.</p> <p>RESPA prohibits the payment of duplicative fees. The payment to an unapproved broker for duplicated services amounts to an unearned fee in violation of Section 8(b) of RESPA. Further, this payment may also act as a disguised referral fee for steering the borrower to the FHA-approved lender or loan correspondent, which is in violation of section 8(a) of RESPA.</p> |

Continued on next page

3. Restrictions on the Use of Non FHA-Approved Mortgage Brokers, Continued

**4155.2 1.A.3.c
Specific Loan
Origination
Functions and
Services That
Must Be
Provided by an
FHA Approved
Lender or
Broker**

FHA requires that the following particular origination functions and services be performed by an FHA-approved lender or loan correspondent:

- taking information from the borrower and filling out the loan application
- collecting financial information (tax returns, bank statements) and other related documents that are part of the application process
- initiating/ordering Verifications of Employment and Deposit
- initiating/ordering request for mortgage and other loan verifications
- initiating/ordering appraisals
- initiating/ordering inspections or engineering reports
- providing disclosures (truth in lending, good faith estimate and others) to the borrower(s)
- maintaining regular contact with the borrower, real estate professional, and lender between loan application and closing to apprise them of the status of the application and gather any additional information needed
- ordering legal documents, and
- determining whether the property is in a flood zone or ordering such service.

Continued on next page

3. Restrictions on the Use of Non FHA-Approved Mortgage Brokers, Continued

**4155.2 1.A.3.d
Services That
May Be
Provided by a
Non FHA
Approved
Broker**

Services that are considered counseling in nature (such as educating prospective borrowers in the home buying and financing process, advising the borrower about different types of loan products available, and demonstrating how closing costs and monthly payment could vary under each product), may be performed by a non FHA-approved broker so long as the services provided constitute meaningful counseling, and not steering.

Under RESPA, when “counseling type” services are performed, HUD also looks at whether

- counseling gave the borrower the opportunity to consider products from at least three different lenders
- the entity performing the counseling would receive the same compensation regardless of which lender’s product were ultimately selected, and
- any payment made for the “counseling type” services is reasonably related to the services performed.

Note: In these instances,

- the fee charged must be paid from the mortgagor’s own available assets and must be disclosed on the HUD-1 at closing, and
 - a copy of the contract for these services must be included in the loan file submitted for insurance endorsement.
-

Section B. Fair Housing and Other Civil Rights Requirements

Overview

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

| Topic | Topic Name | See Page |
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| 1 | General Information on Fair Housing and Other Civil Rights Requirements | 1-B-2 |
| 2 | The Fair Housing Act | 1-B-4 |
| 3 | Affirmative Fair Housing Marketing | 1-B-6 |
| 4 | Fair Credit Reporting Act (FCRA) | 1-B-8 |
| 5 | Equal Credit Opportunity Act (ECOA) | 1-B-9 |
| 6 | Executive Order 11063 (as Amended by Executive Order 12259) | 1-B-12 |
| 7 | Other Housing Act Requirements | 1-B-13 |
| 8 | Confidential Nature of Credit Information | 1-B-14 |
| 9 | Reporting Fraud and Abuse | 1-B-15 |

1. General Information on Fair Housing and Other Civil Rights Requirements

Introduction This topic contains general information on Fair Housing and other civil rights requirements, including

- the applicability of Federal statutes and regulations to FHA single family programs, and
 - references for locating information on various statutes and regulations.
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4155.2 1.B.1.a Applicability of Federal Statutes and Regulations to FHA Single Family Programs Federal statutes and regulations concerning fair housing and equal credit opportunities apply to all of FHA's single family mortgage insurance programs. Lenders must abide by these statutes and regulations for all new originations and assumption transactions.

4155.2 1.B.1.b Locating Information on Various Statutes and Regulations The table below lists the statutes and regulations with which lenders must comply and reference information for locating information on each statute or regulation.

| Statute/Regulation | Reference |
|--|---|
| Title VIII of the Civil Rights Act of 1968, as amended (Public Law 90-284) | Office of Fair Housing and Equal Opportunity U.S. Department of Housing and Urban Development 451 7th Street, SW Washington, DC 20410 |
| Fair Housing Act | See HUD 4155.2 1.B.2 |

Continued on next page

1. General Information on Fair Housing and Other Civil Rights Requirements, Continued

Locating Information on Various Statutes and Regulations (continued)

| Statute/Regulation | Reference |
|--|--------------------------------------|
| Affirmative Fair Housing Marketing | See HUD 4155.2 1.B.3 |
| Fair Credit Reporting Act (FCRA) | See HUD 4155.2 1.B.4 |
| Equal Credit Opportunity Act (ECOA) | See HUD 4155.2 1.B.5 |
| Executive Order 11063, as amended by Executive Order 12259 | See HUD 4155.2 1.B.6 |
| Other Housing Act Requirements | See HUD 4155.2 1.B.7 |

2. The Fair Housing Act

Introduction This topic contains information on the Fair Housing Act, including

- a description of the Fair Housing Act
- prohibited practices in making loans
- prohibited practices in determining loan terms and conditions and loan availability, and
- prohibited practices in the selling, brokering or appraising of real estate.

Change Date July 6, 2009

4155.2 1.B.2.a Description of the Fair Housing Act HUD is responsible for enforcing the Fair Housing Act. The Fair Housing Act, contained in [42 U.S.C. 3605](#), prohibits discrimination in residential real estate-related transactions, such as

- making or purchasing loans or providing other financial assistance, and
- the terms and conditions for making available loans or other financial assistance.

Lenders are prohibited from discriminating on the basis of

- race
- color
- religion
- sex
- handicap/disability
- familial status(existence of children), or
- national origin.

Notes:

- While the statute uses the term “handicap,” the preferred term is “disability” or “person with disabilities.”
 - While not prohibited by the Fair Housing Act, discrimination on the basis of marital status, sexual orientation, age, source of income, and other factors are prohibited by various state and local laws and must be followed where applicable.
-

Continued on next page

2. The Fair Housing Act, Continued

4155.2 1.B.2.b Prohibited Practices in Making Loans

When making loans or providing other financial assistance, a lender is prohibited from discriminating against individuals by

- failing or refusing to provide information regarding
 - the availability of loans or other financial assistance
 - the application requirements, procedures or standards for review and approval of loans or financial assistance, or
 - providing information that is
 - inaccurate, or
 - different from that provided to others because of race, color, religion, sex, disability, familial status, or national origin.
-

4155.2 1.B.2.c Prohibited Practices in Loan Terms & Conditions and Availability

It is unlawful for a lender to discriminate against an individual because of race, color, religion, sex, disability, familial status, or national origin by using different policies, practices, or procedures to

- evaluate or determine the creditworthiness of any person in connection with a loan or other financial assistance secured by residential real estate
 - determine the type of loan or other financial assistance to be provided, or
 - determine the loan amount, interest rate, duration or other terms for the loan or other financial assistance.
-

4155.2 1.B.2.d Prohibited Practices in the Selling, Brokering, or Appraising of Real Estate

It is unlawful for any person or entity whose business includes engaging in the selling, brokering, or appraising of residential real property to discriminate in making available such services, or in the performance of such services, because of race, color, religion, sex, handicap, familial status, or national origin.

3. Affirmative Fair Housing Marketing

Introduction This topic contains information on Affirmative Fair Housing Marketing, including

- applicability of the Fair Housing Marketing policy, and
 - specific requirements regarding
 - hiring policies
 - display of the Equal Housing Opportunity logo, and
 - marketing plans.
-

Change Date July 6, 2009

**4155.2 1.B.3.a
Applicability of
the Fair
Housing
Marketing
Policy** FHA’s regulations on Affirmative Fair Housing Marketing apply to all single family mortgage insurance programs. Homebuilders building five or more units per year must comply with specific policies outlined in [HUD 4155.2 1.B.3.b](#).

Reference: For more information on Fair Housing Marketing, see [24 CFR Part 200, Subpart M](#).

**4155.2 1.B.3.b
Specific
Requirements
of the Fair
Housing Policy** The table below outlines the requirements with which all homebuilders building five units per year or more must comply.

| Requirement | Policy |
|-------------|---|
| Hiring | Applicants must <ul style="list-style-type: none"> • maintain a non-discriminatory policy in hiring sales staff • instruct all employees on the laws and philosophy of fair housing, and • submit an Equal Housing Opportunity (EEO) Certification to FHA. |

Continued on next page

3. Affirmative Fair Housing Marketing, Continued

4155.2 1.B.3.b Specific Requirements of the Fair Housing Policy (continued)

| Requirement | Policy |
|---|---|
| Logo | <p>Applicants must display the Equal Housing Opportunity statement, logotype, and slogan on all</p> <ul style="list-style-type: none"> • advertising • brochures • site signs, and • other materials. |
| Affirmative Fair Housing Marketing Plan | <p>Single family homebuilders are required to provide information to HUD on their affirmative fair housing marketing activities. These activities, among other things, are intended to inform everyone of the availability of housing opportunities, regardless of</p> <ul style="list-style-type: none"> • race • color • religion • sex • disability, • familial status, or • national origin. |

4. Fair Credit Reporting Act (FCRA)

Introduction This topic contains information on the Fair Credit Reporting Act (FCRA) including

- the purpose of the FCRA, and
 - lender requirements when taking adverse action against a borrower.
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Change Date May 10, 2009

4155.2 1.B.4.a Purpose of the FCRA The [Fair Credit Reporting Act](#) is intended to control collection and dissemination of information about granting credit to a borrower.

The FCRA is designed primarily to ensure that consumer reporting agencies exercise fairness, confidentiality, and accuracy in preparing and disclosing credit information.

4155.2 1.B.4.b Lender Requirements When Taking Adverse Action Against a Borrower As required under the FCRA, if a lender takes adverse action that is based in whole or in part on a credit report, the lender must disclose to the borrower the name, address, and, if available, the telephone number of the credit reporting agency issuing the report. Additionally, the notice must

- be provided at the time of notice of mortgage rejection, or within a reasonable time thereafter, and
- indicate that the borrower is entitled to request from the credit reporting agency information reported to the lender that was used as a reason for rejection.

Note: A copy of any such notice should be retained in the application file.

5. Equal Credit Opportunity Act (ECOA)

Introduction This topic contains information on the Equal Credit Opportunity Act (ECOA), including

- the requirements of the ECOA and Regulation B
 - lender restrictions per the ECOA, and
 - Regulation B requirements for borrower notification of action taken
 - Regulation B time limit for borrower notification, and
 - requirements for rejected loans.
-

Change Date May 10, 2009

**4155.2 1.B.5.a
Requirements
of the ECOA
and Regulation
B**

The Equal Credit Opportunity Act (ECOA) prohibits discrimination in the extension of credit either

- on the basis of race, color, religion, national origin, sex, marital status, or age
- because all or part of the borrower's income derives from public assistance, or
- because the borrower has, in good faith, exercised any right under the Consumer Credit Protection Act.

The ECOA and Regulation B of the Board of Governors of the Federal Reserve System outline rules to be observed in evaluating the creditworthiness of borrowers.

Under *no* circumstances can the source of confidential credit information be disclosed to third parties, except as required by law.

References: For more information on

- the ECOA, see [15 USC 1601](#), and
 - Regulation B, see [12 CFR 202](#).
-

Continued on next page

5. Equal Credit Opportunity Act (ECOA), Continued

4155.2 1.B.5.b Lender Restrictions per the ECOA

The ECOA prohibits a lender from

- making any oral or written statement, in advertising or otherwise, to borrowers or prospective borrowers that would discourage on a prohibited basis a reasonable person from making or pursuing an application
 - inquiring whether income stated in an application is derived from alimony, child support, or separate maintenance payments, *unless* the creditor discloses to the borrower that such income need not be revealed if the borrower does not want the lender to consider it in determining the borrower's creditworthiness
 - inquiring about the sex, race, color, religion, or national origin of an applicant (except as provided in [12 CFR 202.13](#) regarding information for monitoring purposes), or
 - inquiring about birth control practices, or intentions concerning the bearing and rearing of children, or capability to bear them.
-

4155.2 1.B.5.c Regulation B Requirement for Borrower Notification of Action Taken

Regulation B requires that a borrower be notified of action taken by the creditor. Actions taken by HUD or the DE lender include

- issuing a Firm Commitment or DE approval
 - rejecting the borrower for mortgage credit reasons, and
 - notifying the borrower of the lender's inability to process the application because certain items are incomplete or were not submitted.
-

4155.2 1.B.5.d Regulation B Time Limit for Borrower Notification

Under Regulation B, the maximum time limit for borrower notification is 30 days after the date the DE underwriter receives of the application, or the resubmission or reconsideration of an application. Under *no* circumstances is the processing of an application to be delayed to such an extent that notification cannot be provided within this time limit.

For purposes of complying with the notification requirements of Regulation B, resubmissions and reconsiderations are considered new applications.

Continued on next page

5. Equal Credit Opportunity Act (ECOA), Continued

4155.2 1.B.5.e Requirements for Rejected Loans

Under Regulation B, for loans that are rejected, the lender must

- complete a rejection notice that
 - provides all of the specific reasons for the rejection and any counter proposals to effectuate loan approval (such as a reduced mortgage amount), and
 - otherwise complies with the requirements of Regulation B, and
- retain case binders on the rejected loans for 26 months from the date the application is
 - received by the DE underwriter, or
 - rejected by the appropriate HOC.

Notes:

- Delinquent accounts need not be listed in the rejection notice.
 - At least one credit aspect must be rejected before an overall rejection can be issued.
-

6. Executive Order 11063 (as Amended by Executive Order 12259)

Change Date May 10, 2009

4155.2 1.B.6.a
Description of
Executive
Order 11063

[Executive Order 11063](#), as amended by [Executive Order 12259](#), prohibits discrimination in lending practices involving housing and related facilities that are financed, insured, or guaranteed by the Federal government.

7. Other Housing Act Requirements

Introduction This topic contains information on specific sections of the National Housing Act, including descriptions of the requirements of

- Section 527 of the National Housing Act
- Section 535 of the National Housing Act, and
- Section 330(a) of the 1990 National Affordable Housing Act.

Change Date May 10, 2009

**4155.2 1.B.7.a
Description of
the Section 527
Requirements** Section 527 of the National Housing Act prohibits denial of a federally-related mortgage loan on the basis of sex.

**4155.2 1.B.7.b
Description of
Section 535
Requirements** Under Section 535 of the National Housing Act, lenders are prohibited from requiring, as a condition of providing a loan to be insured by FHA, that the loan amount equal or exceed a minimum amount established by the lender.

**4155.2 1.B.7.c
Description of
the Section
330(a)
Requirements** Section 330(a) of the 1990 National Affordable Housing Act prohibits a variation in mortgage rates charged (“tiered pricing”) that exceeds 2 percent for FHA-insured mortgages made by a lender on dwellings located within a particular area.

Reference: For more information on the prohibition of mortgage rate variation, see [24 CFR 202.12](#).

8. Confidential Nature of Credit Information

Change Date May 10, 2009

**4155.2 1.B.8.a
Confidentiality
Policy for
Credit
Information**

Sources of credit information must never be divulged, except as required by the contract or by law. All personnel with access to credit information must ensure that the use and disclosure of information from a credit report complies with

- [Title VIII of the Civil Rights Act of 1968](#)
 - the [Fair Credit Reporting Act, Public Law 91-508](#)
 - the [Privacy Act, Public Law 93-579](#)
 - the [Financial Privacy Act, Public Law 95-630](#), and
 - the [Equal Credit Opportunity Act, Public Law 94-239](#) and [12 CFR Part 202](#).
-

9. Reporting Fraud and Abuse

Introduction This topic contains information on reporting fraud and abuse, including

- lender responsibility for reporting violations and program abuses, and
- methods of reporting fraud or abuse.

Change Date May 10, 2009

**4155.2 1.B.9.a
Lender
Responsibility
for Reporting
Violations and
Program
Abuses** A lender or any of its employees who detect any violation of law or regulation, or any false statements or program abuses must report such violations immediately to HUD.

**4155.2 1.B.9.b
Methods for
Reporting
Fraud or Abuse** A report of fraud or abuse may be submitted to HUD either by

- email, on the Internet at www.hud.gov
- phone, by calling
 - toll-free at 1-800-347-3735, or
 - TDD at 202-708-2451
- fax, at 202-708-4829 , or
- U.S. Mail, by sending the report to the following address:

U.S. Department of Housing & Urban Development
Office of Inspector General Hotline
Assistant Inspector General for Investigations
451 7th Street, S.W., Room 8270
Washington, DC 20410

Section C. Home Mortgage Insurance Programs

Overview

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

| Topic | Topic Name | See Page |
|--------------|--|-----------------|
| 1 | General Information on Home Mortgage Insurance Programs | 1-C-2 |
| 2 | Section 203(b) Home Mortgage Insurance | 1-C-3 |
| 3 | Section 203(h) Home Mortgage Insurance for Disaster Victims | 1-C-6 |
| 4 | Section 203(i) Home Mortgage Insurance for Outlying Areas | 1-C-9 |
| 5 | Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program | 1-C-11 |
| 6 | Section 203(n) Single Family Cooperative Program | 1-C-15 |
| 7 | Section 220(d)(3)(A) Urban Renewal Mortgage Insurance | 1-C-17 |
| 8 | Section 220(h) Insured Improvement Loans-Urban Renewal Areas | 1-C-21 |
| 9 | Section 223(e) Miscellaneous Housing Insurance | 1-C-23 |
| 10 | Section 233 Mortgage Insurance for Experimental Housing | 1-C-25 |
| 11 | Section 234(c) Mortgage Insurance for Condominium Units | 1-C-27 |
| 12 | Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs) | 1-C-29 |
| 13 | Section 245(a) Graduated Payment Mortgage (GPM) and Growing Equity Mortgage (GEM) | 1-C-30 |
| 14 | Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL) | 1-C-35 |
| 15 | Section 248 Single Family Mortgage Insurance on Indian Lands (IL) | 1-C-39 |
| 16 | Section 251 Adjustable Rate Mortgages (ARMs) | 1-C-41 |
| 17 | Section 255 Home Equity Conversion Mortgage (HECM) | 1-C-45 |

1. General Information on Home Mortgage Insurance Programs

| | |
|---|---|
| Introduction | <p>This topic contains general information on home mortgage insurance programs, including</p> <ul style="list-style-type: none">• a description of the types of home mortgage insurance programs described in this section, and• the enabling legislation for these programs. |
| Change Date | <p>May 10, 2009</p> |
| 4155.2 1.C.1.a Types of Mortgage Insurance Programs | <p>This section provides a brief description of all FHA single family mortgage insurance programs. Unless otherwise stated, FHA's single family programs are limited to primary residences only.</p> |
| 4155.2 1.C.1.b Enabling Legislation for Single Family Insurance Programs | <p>All of the FHA's single family programs are authorized by the enabling legislation of Title II of the National Housing Act. Each program is generally referred to by its particular section of the Act.</p> <p>Reference: For more information on FHA's home mortgage insurance programs, see HUD 4155.2 1.A.1.</p> |

2. Section 203(b) Home Mortgage Insurance

Introduction This topic contains information on the Section 203(b) Home Mortgage Insurance program, including

- a description of Section 203(b) insurance
 - the determination of the maximum insurable mortgage on purchases
 - statutory loan limits
 - maximum loan-to-value (LTV) ratios
 - the required minimum investment policy
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

**4155.2 1.C.2.a
Description of
Section 203(b)
Insurance** Section 203(b) Home Mortgage Insurance insures lenders against losses on mortgage loans used to

- finance the purchase of proposed, under construction, or existing one- to four-family dwellings or manufactured homes, or
 - refinance indebtedness on existing housing.
-

**4155.2 1.C.2.b
Determination
of the 203(b)
Maximum
Insurable
Mortgage on
Purchases** The maximum insurable mortgage under Section 203(b) is determined by the lesser of the

- statutory maximum loan limit, or
- applicable loan-to-value (LTV) ratio.

References: For information on

- statutory loan limits, see [HUD 4155.2 1.C.2.c](#), and
 - maximum LTV ratios, see [HUD 4155.2 1.C.2.d](#).
-

Continued on next page

2. Section 203(b) Home Mortgage Insurance, Continued

4155.2 1.C.2.c Section 203(b) Statutory Loan Limits

Statutory loan limits for home mortgage loans under 203(b) in high-cost areas are based upon the median sales prices in the area. Statutory limits may be 50 percent higher in Alaska, Hawaii, Guam, and the Virgin Islands.

Note: Dollar limitations may be increased by up to 20 percent if the increase is directly attributable to the cost and installation of a solar energy system on the property.

Reference: Statutory loan limits may be found

- on the HUD Web site at www.hud.gov, or
 - by accessing the FHA Connection at <https://entp.hud.gov/clas/>.
-

4155.2 1.C.2.d Section 203(b) Maximum LTV Ratios

The maximum LTV for a property depends upon

- the stage of construction (such as proposed construction, under construction, or existing home, and
- the appraised value and sales price.

Note: Although the up-front mortgage insurance premium (UFMIP) may be financed, do not include it when applying the appropriate LTV.

References: For more information on maximum LTVs for

- properties in different stages of construction, see [HUD 4155.1 2.B](#), and
 - refinance transaction, see [HUD 4155.1 3.B](#).
-

Continued on next page

2. Section 203(b) Home Mortgage Insurance, Continued

4155.2 1.C.2.e Borrowers are required to invest the *difference* between
Section 203(b)
Required • the total acquisition cost (sales price, cost of any required repairs paid for by
Borrower the borrower, and total closing costs to be paid by the borrowers), and
Minimum • the amount of the mortgage to be insured.
Down Payment
Policy The table below contains additional policies regarding a borrower’s minimum investment.

| FHA policy regarding the minimum down payment for a(n) | States that ... |
|--|---|
| principal residence | the borrower’s minimum down payment may not be less than 3.5 percent of the appraised value of the property or the sales price, whichever is less. |
| occupant borrower at least 60 years old | <ul style="list-style-type: none"> • the borrower may borrow all or part of the required down payment from a relative, employer or humanitarian organization • the amount borrowed, when added to the mortgage amount, cannot exceed the total of the appraised value, plus prepaid expenses and closing costs • the interest rate on the borrowed down payment cannot exceed the mortgage interest rate, and • the mortgaged property cannot be used as security for the down payment loan. <p><i>Note:</i> Evidence that these conditions are met must accompany the application.</p> |

4155.2 1.C.2.f Under Section 203(b), the mortgage term is any term up to 30 years.
Section 203(b)
Mortgage Term

4155.2 1.C.2.g Under Section 203(b), mortgage insurance premiums (MIPs) are paid as up-
Section 203(b) front mortgage insurance premium (UFMIP) and monthly.
MIP Payment

4155.2 1.C.2.h Refinancing is permitted in conjunction with rehabilitation.
Section 203(b)
Refinancing
Policy

3. Section 203(h) Home Mortgage Insurance for Disaster Victims

Introduction This topic contains information on Section 203(h) Home Mortgage Insurance for Disaster Victims, including

- a description of the Section 203(h) program
 - eligibility requirements
 - the maximum insurable mortgage/LTV ratio
 - closing costs and prepaid expenses
 - the minimum borrower cash investment
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

4155.2 1.C.3.a Description of Section 203(h) Program The Section 203(h) Home Mortgage Insurance for Disaster Victims program insures lenders against losses on mortgage loans on principal residences of borrowers who are disaster victims.

- Reference:** For additional information on the Section 203(h) program, see
- [HUD 4240.1](#), *Section 203(h) Home Mortgage Insurance for Disaster Victims*, and
 - [24 CFR 203.18\(e\)](#).
-

Continued on next page

3. Section 203(h) Home Mortgage Insurance for Disaster Victims, Continued

**4155.2 1.C.3.b
Section 203(h)
Eligibility
Requirements**

In order for a home mortgage loan to be eligible under Section 203(h), the loan must meet the following eligibility requirements:

- the loan must be for the purchase or reconstruction of a one-family dwelling
- the previous home (owned or rented) must have been
 - in an area that the President has declared a major disaster area, and
 - destroyed or damaged to such an extent that reconstruction or replacement is necessary, and
- the application must be submitted within one year of the President's declaration.

Notes:

- Documentation attesting to the damage of the previous home must accompany the loan application.
 - If purchasing a new home, the home need not be located in the area where the previous home was located.
-

**4155.2 1.C.3.c
Section 203(h)
Maximum
Insurable
Mortgage/ LTV
Ratio**

The Section 203(h) program has the same statutory loan limits as those of the Section 203(b) program. The LTV ratio is 100 percent.

Reference: For the Section 203(b) statutory loan limits, see [HUD 4155.2 1.C.2.c](#).

**4155.2 1.C.3.d
Section 203(h)
Closing Costs
and Prepaid
Expenses**

Under the Section 203(h) program, closing costs and prepaid expenses must be

- paid by the borrower in cash, or
 - paid through premium pricing.
-

**4155.2 1.C.3.e
Section 203(h)
Minimum
Borrower Cash
Investment**

The Section 203(h) insurance program has no minimum borrower cash investment requirement.

Continued on next page

3. Section 203(h) Home Mortgage Insurance for Disaster Victims, Continued

**4155.2 1.C.3.f
Section 203(h)
Mortgage Term** The mortgage term for the Section 203(h) Program is any term up to 30 years.

**4155.2 1.C.3.g
v203(h) MIP
Payment** Under the Section 203(h) program, mortgage insurance premiums (MIPs) are paid as up-front mortgage insurance premium (UFMIP) and monthly.

**4155.2 1.C.3.h
Section 203(h)
Refinancing
Policy** Under the Section 203(h) program, refinancing is permitted in conjunction with rehabilitation.

4. Section 203(i) Home Mortgage Insurance for Outlying Areas

Introduction This topic contains information on Section 203(i) Home Mortgage Insurance for Outlying Areas, including

- a description of Section 203(i) insurance
 - the maximum insurable mortgage amount
 - the statutory loan limit/LTV
 - the minimum borrower investment
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

4155.2 1.C.4.a Description of Section 203(i) Insurance The Section 203(i) Home Mortgage Insurance for Outlying Areas insures lenders against losses on mortgage loans used to

- purchase a proposed, under construction, or existing one-family dwelling (or manufactured home), or
- refinance a mortgage on an existing one-family dwelling in a rural area or a farm home located on 2.5 or more acres of land adjacent to an all-weather public road.

Reference: For more information on Section 203(i), see

- [HUD 4240.1](#), *Section 203(h), Home Mortgage Insurance for Disaster Victims*, and
 - [24 CFR 203.18\(d\)](#).
-

4155.2 1.C.4.b Section 203(i) Maximum Insurable Mortgage The maximum insurable mortgage is determined by the *lesser* of

- the statutory loan limit, or
- the applicable LTV ratio.

Continued on next page

4. Section 203(i) Home Mortgage Insurance for Outlying Areas, Continued

4155.2 1.C.4.c Section 203(i) Statutory Loan Limit/ LTV

The statutory loan limit for the Section 203(i) program is 75 percent of the amount available under Section 203(b). The Section 203(b) loan limit is found in [HUD 4155.2 1.C.2.c](#).

The LTV is the same as that of the Section 203(b) program, found in [HUD 4155.2 1.C.2.d](#).

Note: Loan limits may be increased by up to 20 percent if the increase is directly attributable to the cost and installation of a solar energy system on the property.

References:

- Statutory loan limits are available on the HUD Web site at www.hud.gov.
- For more information on the increase of loan limits and solar energy systems, see [HUD 4155.1 6.D](#).

4155.2 1.C.4.d Section 203(i) Minimum Borrower Down Payment

The minimum borrower down payment for the Section 203(i) program is the same as that for the Section 203(b) program, found in [HUD 4155.2 1.C.2.e](#). However, the borrower, under certain circumstances, may borrow the required down payment.

Reference: For more information on the minimum borrower down payment, see [HUD 4240.1](#).

4155.2 1.C.4.e Section 203(i) Mortgage Term

Under the Section 203(i) program, the mortgage term is the same as that for the Section 203(b) program, found in [HUD 4155.2 1.C.2.f](#).

4155.2 1.C.4.f Section 203(i) MIP Payment

MIP on Section 203(i) mortgage loans is paid as UFMIP and monthly.

4155.2 1.C.4.g Section 203(i) Refinancing Policy

The refinancing policy under Section 203(i) is the same as that for Section 203(b), found in

- [HUD 4155.1 3.A](#), and
 - [HUD 4155.1 3.B](#).
-

5. Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program

Introduction This topic contains information on Section 203(k) Rehabilitation Home Mortgage Insurance, including

- a description of the Section 203(k) insurance program
 - a description of the Streamline (k) program
 - Section 203(k) eligible improvements
 - Section 203(k) eligibility for insurance *before* rehabilitation begins
 - cases requiring two appraisals (not applicable on Streamline (k))
 - collection of a supplemental origination fee
 - required Section 203(k) documentation
 - the maximum insurable mortgage
 - the minimum borrower down payment
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

4155.2 1.C.5.a Description of Section 203(k) Insurance The Section 203(k) Rehabilitation Home Mortgage Insurance insures lenders against losses on mortgage loans used to

- purchase and rehabilitate an existing one- to-four-family dwelling (completed for more than one year) that will be used for residential purposes
- refinance and rehabilitate such a structure and refinance the outstanding indebtedness (not applicable for Streamline (k)), or
- rehabilitate a dwelling after it has been moved from one site to a new foundation (excluding manufactured homes).

Restriction: Section 203(k) should *not* be used unless the rehabilitation or improvement costs total a minimum of \$5,000 (not applicable for Streamline (k)).

Reference: For more information on Section 203(k) mortgages, see

- [HUD 4240.4](#), 203(k), *Rehabilitation Home Mortgage Insurance*, and
- [24 CFR 203.50](#).

Continued on next page

5. Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program, Continued

4155.2 1.C.5.b Description of Streamline 203 (k)

FHA's Streamlined 203(k) program permits borrowers to

- finance up to an additional \$35,000 into their mortgage to improve or upgrade their home before move-in, and
- quickly and easily tap into cash to pay for property repairs or improvements, such as those identified by a home inspector or FHA appraiser.

Note: Unlike the standard 203(k) program, any FHA-approved lender may originate a Streamlined 203(k) mortgage.

Reference: For additional information on the Streamlined 203(k) program, see [ML 2005-50](#), *Enhancements to "Streamlined (k)" Limited Repair Program*.

4155.2 1.C.5.c Section 203(k) Eligible Improvements

Section 203(k) eligible improvements include items such as

- structural alterations (not applicable on Streamline (k))
- additions (not applicable on Streamline (k))
- reconstruction (not applicable on Streamline (k))
- remodeling (only minor remodeling allowed on Streamline(k))
- new siding
- plumbing
- painting
- decking
- heating and/or air conditioning
- electrical systems
- roofing
- flooring and carpeting
- energy efficient improvements
- major landscape work (not applicable on Streamline (k)), and
- pool repairs and pool fences.

Note: All health, safety, and energy efficient items must be addressed prior to completing general home improvements.

Continued on next page

5. Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program, Continued

4155.2 1.C.5.d Section 203(k) Eligibility for Insurance Before Rehabilitation Begins

A Section 203(k) mortgage is eligible for insurance *before* rehabilitation begins provided that the mortgage proceeds allocated for the rehabilitation

- go into a Rehabilitation Escrow Account at closing, and
- will be disbursed as work progresses.

4155.2 1.C.5.e 203(k) Cases Requiring Two Appraisals (not required on streamline (k))

In some cases, a Section 203(k) mortgage requires two appraisals (not applicable on Streamline (k)) as follows:

- one on the “as is” value of the property, and
- a second on the estimated market value when the work is complete.

Note: Appraisal is made subject to completion of the proposed repairs and/or improvement.

4155.2 1.C.5.f Section 203(k) Collection of a Supplemental Origination Fee

When the Section 203(k) mortgage involves insurance of advances and partial disbursements of the Rehabilitation Escrow Account, the lender may collect from the borrower a supplemental origination fee which

- compensates the lender for the additional cost of disbursements and inspections of the work, and
- is limited to whichever is *greater* of either
 - 1.5 percent of the portion of the mortgage allocated to rehabilitation, or
 - \$350.

4155.2 1.C.5.g Required Section 203(k) Documentation

The 203(k) mortgage application package must include

- drawings and specifications of the proposed improvements (not applicable on Streamline (k))
- the rehabilitation cost estimate, and
- a work write-up that shows that, when the property is completed, it will meet FHA’s minimum property standards or, if more stringent, the local codes (not applicable on Streamline (k)).

Continued on next page

5. Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program, Continued

| | |
|--|--|
| 4155.2 1.C.5.h Section 203(k) Maximum Insurable Mortgage | <p>To assure that the mortgage is adequately supported by the property value, the maximum 203(k) mortgage amount must be based on the <i>lesser</i> of the following:</p> <ul style="list-style-type: none">• the “as is” property value, plus the cost of repairs and improvements (if an “as is” appraisal is not performed, use the contract sales price on a purchase transaction, plus the repair costs)• the existing debt on a refinance, plus the repair costs, or• 110 percent of the “after improved” value. |
| 4155.2 1.C.5.i Section 203(k) Minimum Borrower Down Payment | <p>The Section 203(k) minimum borrower down payment is the same as that of the Section 203(b) program, found in HUD 4155.2 1.C.2.e.</p> |
| 4155.2 1.C.5.j Section 203(k) Mortgage Term | <p>Section 203(k) mortgage term policy is the same as that for the Section 203(b) program found in HUD 4155.2 1.C.2.f.</p> |
| 4155.2 1.C.5.k Section 203(k) MIP Payment | <p>Section 203(k) requires payment of upfront MIP and annual MIP.</p> |
| 4155.2 1.C.5.l Section 203(k) Refinancing Policy | <p>Refinancing on a 203(k) mortgage is permitted in conjunction with rehabilitation.</p> |

6. Section 203(n) Single Family Cooperative Program

Introduction This topic contains information on Section 203(n) Single Family Cooperative Program, including

- a description of the Section 203(n) program
 - Section 203(n) occupancy requirements
 - the maximum insurable mortgage
 - the minimum borrower investment
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

4155.2 1.C.6.a Description of Section 203(n) Program The Section 203(n) Single Family Cooperative program insures lenders against losses on mortgage loans used to acquire corporate certificates (stock or membership) and occupancy certificates in a cooperative housing project covered by a blanket mortgage insured under the National Housing Act.

Note: This program is *not* eligible for Direct Endorsement (DE) processing.

Reference: For more information on Section 203(n), see

- [HUD 4240.3](#), *Application Through Insurance (Single Family) Section 203(n)*, and
 - [24 CFR 203.43c](#).
-

4155.2 1.C.6.b Section 203(n) Occupancy Requirements Under Section 203(n), the purchaser

- must intend to occupy the unit, and
 - is responsible for his/her share of common expenses or assessments and charges.
-

Continued on next page

6. Section 203(n) Single Family Cooperative Program,

Continued

**4155.2 1.C.6.c
v203(n)
Maximum
Insurable
Mortgage**

The maximum mortgage amount on a Section 203(n) mortgage is

- the remaining balance of the amount calculated per instructions for Section 203(b) in [HUD 4155.2 1.C.2.b](#) relating to owner-occupants, *minus*
- the portion of the unpaid balance of the blanket mortgage which is attributable to the dwelling unit.

**4155.2 1.C.6.d
Section 203(n)
Minimum
Borrower
Investment**

The minimum borrower investment on a Section 203(n) mortgage is the same as that of a Section 203(b) mortgage, found in [HUD 4155.2 1.C.2.e](#).

**4155.2 1.C.6.e
Section 203(n)
Mortgage Term**

The mortgage term on a Section 203(n) mortgage is not to exceed the *lesser* of

- 30 years
- the remaining term of the blanket mortgage, or
- three-fourths of the remaining economic life of the building improvements.

**4155.2 1.C.6.f
Section 203(n)
MIP Payment**

Section 203(n) MIP payment is UFMIP and monthly.

**4155.2 1.C.6.g
Section 203(n)
Refinancing
Policy**

Refinancing is not available on a Section 203(n) mortgage.

7. Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance

Introduction This topic contains information on Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance, including

- a description of the Section 220 (d)(3)(A) program
 - the area eligibility policy
 - the maximum insurable mortgage
 - statutory limits
 - LTV ratios
 - the minimum borrower investment
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

**4155.2 1.C.7.a
Description of
the Section
220(d)(3)(A)
Program**

The Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance program insures lenders against losses on mortgage loans used to rehabilitate one-to eleven-family dwellings, or build new ones in redevelopment areas.

Reference: For more information on Section 220(d)(3)(A) mortgage loans, see [HUD 4245.1](#), *Section 220(d)(3)(A) and Section 220(h) Rehabilitation and Neighborhood Conservation Housing Insurance Program*.

**4155.2 1.C.7.b
Section
220(d)(3)(A)
Area Eligibility
Policy**

The Section 220(d)(3)(A) program is limited to

- urban renewal or code enforcement areas, and
 - areas designated by local government (and approved by FHA) for concentrated housing, physical development, and public service activities under a locally developed comprehensive strategy to upgrade and stabilize the area.
-

Continued on next page

7. Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance, Continued

4155.2 1.C.7.c Section 220(d)(3)(A) Maximum Insurable Mortgage

The maximum insurable mortgage under the Section 220(d)(3)(A) program is determined by the *lesser* of the statutory loan limit or the appropriate LTV ratio, using the cost of rehabilitation or construction instead of market value.

References: For information on the Section 220 (d)(3)(A)

- statutory loan limits, see [HUD 4155.2 1.C.7.d](#), and
- LTV ratios, see [HUD 4155.2 1.C.7.e](#).

4155.2 1.C.7.d Section 220(d)(3)(A) Statutory Loan Limits

The table below provides information on statutory loan limits for Section 220(d)(3)(A) mortgages.

| Dwelling Type | Statutory Loan Limit |
|----------------------------------|---|
| One- to four- family structure | The same as that for Section 203(b) found in HUD 4155.2 1.C.2.c . |
| Five- to eleven-family structure | The applicable Section 203(b) limit for a four-family dwelling, plus \$9,165 for each additional family unit over four. |

Continued on next page

7. Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance, Continued

4155.2 1.C.7.i
Section
220(d)(3)(A)
Refinancing
Policy

Refinancing on a Section 220(d)(3)(A) loan is permitted in conjunction with rehabilitation.

8. Section 220(h) Insured Improvement Loans Urban Renewal

| | |
|--|--|
| Introduction | <p>This topic contains information on Section 220(h) Insured Improvement Loans Urban Renewal, including</p> <ul style="list-style-type: none"> • a description of the Section 220(h) program • the property eligibility policy • the maximum insurable mortgage • the minimum borrower investment • the mortgage term • MIP payment, and • the refinancing policy. |
| <hr/> | |
| Change Date | May 10, 2009 |
| <hr/> | |
| 4155.2 1.C.8.a Description of Section 220(h) Program | <p>The Section 220(h) program insures lenders against losses on mortgage loans used for alterations, repairs, or improvements to existing one- to eleven-family dwellings in a redevelopment area.</p> <p>Note: Cost certifications are required for five to eleven family dwellings.</p> <p>References: For more information on Section 220(h) loans and Section 220 (d)(3)(A) urban renewal loans, see</p> <ul style="list-style-type: none"> • HUD 4155.2 1.C.7, and • HUD 4245.1, <i>Section 220(d)(3)(A) and Section 220(h) Rehabilitation and Neighborhood Conservation Housing Insurance Program</i>. |
| <hr/> | |
| 4155.2 1.C.8.b Section 220(h) Property Eligibility Policy | <p>The property involved in a Section 220(h) loan must have been completed not less than 10 years before the date of application, unless the loan will be used primarily for</p> <ul style="list-style-type: none"> • major structural improvements • correcting defects not apparent at completion, or • correcting defects caused by fire, flood, or other casualty. |

Continued on next page

8. Section 220(h) Insured Improvement Loans Urban Renewal, Continued

**4155.2 1.C.8.c
Section 220(h)
Maximum
Insurable
Mortgage**

The maximum insurable mortgage amount on a Section 220(h) mortgage loan cannot exceed the difference between any existing debt on the property and the Section 220(d)(3)(A) statutory loan limit for that size structure. Within this limit, the maximum insurable mortgage is the *lesser* of

- FHA's estimate of the cost of improvements
- \$40,000, or
- \$12,000 per family unit (\$17,400 in high-cost areas).

Reference: For information on the Section 220(d)(3)(A) statutory loan limits, see [HUD 4155.2 1.C.7.d](#).

**4155.2 1.C.8.d
Section 220(h)
Minimum
Borrower
Investment**

There is no minimum borrower investment required on a Section 220(h) loan.

**4155.2 1.C.8.e
Section 220(h)
Mortgage Term**

The mortgage term on a Section 220(h) loan can be 10, 15, or 20 years.

**4155.2 1.C.8.f
Section 220(h)
MIP Payment**

MIP payments are made monthly on a Section 220(h) loan.

**4155.2 1.C.8.g
Section 220(h)
Refinancing
Policy**

Refinancing is not available under the Section 220(h) program.

9. Section 223(e) Miscellaneous Housing Insurance

Introduction This topic contains information on the Section 223(e) Miscellaneous Housing Insurance program, including

- a description of the Section 223(e) program
 - the property eligibility policy
 - the maximum insurable mortgage
 - the minimum borrower investment
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

4155.2 1.C.9.a Description of Section 223(e) Program The Section 223(e) Miscellaneous Housing Insurance program insures lenders against losses on mortgage loans used to finance the repair, rehabilitate, construct or purchase property in an older, declining urban area.

- Reference:** For more information on the Section 223(e) program, see
- [HUD 4260.1](#), *Section 223(a), (e), and (d), Miscellaneous Type Home Mortgage Insurance*, and
 - [24 CFR 203.43a](#).
-

4155.2 1.C.9.b Section 223(e) Property Eligibility Policy Under the Section 223(e) program, the area must be reasonably viable, and the property cannot qualify for other single family programs.

Note: The appraiser must make the initial determination of properties subject to Section 223(e).

4155.2 1.C.9.c Section 223(e) Maximum Insurable Mortgage The maximum insurable mortgage on a Section 223(e) loan is the same as that of the appropriate section under which the loan is insured.

Continued on next page

9. Section 223(e) Miscellaneous Housing Insurance, Continued

4155.2 1.C.9.d
Section 223(e)
Minimum
Borrower
Investment

The minimum borrower investment on a Section 223(e) loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.9.e
Section 223(e)
Mortgage Term

The mortgage term on a Section 223(e) loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.9.f
Section 223(e)
MIP Payment

The MIP is paid monthly on a Section 223(e) loan.

4155.2 1.C.9.g
Section 223(e)
Refinancing
Policy

Refinancing is not available under the Section 223(e) program.

10. Section 233 Mortgage Insurance for Experimental Housing

Introduction This topic contains information on Section 233 Mortgage Insurance for Experimental Housing, including

- a description of the Section 233 program
 - the property eligibility policy
 - the maximum insurable mortgage
 - the minimum borrower investment
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

4155.2 1.C.10.a Description of the Section 233 Program The Section 233 Mortgage Insurance for Experimental Housing program insures lenders against losses on mortgage loans used to build or rehabilitate one to four family dwellings (or one to eleven family dwellings meeting the requirements of Section 203(b), Section 220(d)(3)(A), or Section 220(h) using

- advanced technology in housing design, material or construction, or
- experimental property standards for neighborhood design.

Reference: For more information on Section 233, see [HUD 4290.1](#), *Section 233, Mortgages Involving Experimental Housing for Home Mortgage Insurance*.

4155.2 1.C.10.b Section 233 Property Eligibility Policy The property in a Section 233 mortgage must be approved for insurance before construction, repair, rehabilitation, or improvement can begin.

Continued on next page

10. Section 233 Mortgage Insurance for Experimental Housing, Continued

| | |
|--|---|
| 4155.2 1.C.10.c Section 233 Maximum Insurable Mortgage | The requirements of the applicable program, such as Section 203(b), 220(d)(3)(A), 220(h), or 234(c) must be met. Note: The LTV ratios are applied to the estimated replacement cost, rather than value, for new construction or to the estimated rehabilitation cost, using conventional or advanced method, whichever is less. |
| 4155.2 1.C.10.d Section 233 Minimum Borrower Investment | The minimum borrower investment on a Section 233 loan is the same as that of the appropriate section under which the loan is insured. |
| 4155.2 1.C.10.e Section 233 Mortgage Term | The mortgage term on a Section 233 loan is the same as that of the appropriate section under which the loan is insured. |
| 4155.2 1.C.10.f Section 233 MIP Payment | The MIP is paid monthly on a Section 233 mortgage loan. |
| 4155.2 1.C.10.g Section 233 Refinancing Policy | Refinancing is not available under the Section 233 program. |

11. Section 234(c) Mortgage Insurance for Condominium Units

Introduction This topic contains information on Section 234(c) Mortgage Insurance for Condominium Units, including

- a description of the Section 234(c) program
 - the project eligibility policy
 - the borrower eligibility policy
 - the maximum insurable mortgage
 - the minimum borrower investment
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date May 10, 2009

4155.2 1.C.11.a Description of the Section 234(c) Program The Section 234(c) Mortgage Insurance for Condominium Units program insures lenders against losses on mortgage loans used to purchase or refinance individual units in eligible condominium projects.

Reference: For more information on Section 234(c), see

- [HUD 4150.1](#), *Valuation Analysis for Home Mortgage Insurance*, and
 - [24 CFR 234](#).
-

4155.2 1.C.11.b Section 234(c) Project Eligibility Policy Under Section 234(c), the condominium project must be on FHA's approved list of condominium projects. In specific circumstances, a loan on a single unit in an unapproved condominium project, known as a "spot loan," may qualify for mortgage insurance.

Note: The lender must certify that a project satisfies the eligibility criteria for a spot loan on a condominium project that has not been approved by FHA.

References: For more information on

- unapproved condominium projects and "spot loans," see [ML 96-41](#), and
 - FHA's list of approved condominium projects, see the [HUD Web site](#).
-

Continued on next page

11. Section 234(c) Mortgage Insurance for Condominium Units, Continued

| | |
|---|---|
| 4155.2 1.C.11.c Section 234(c) Borrower Eligibility Policy | Borrower eligibility is that same as that for Section 203(b). <i>Reference:</i> For information on Section 203(b) borrower eligibility, see HUD 4155.1 4.A. |
| 4155.2 1.C.11.d Section 234(c) Maximum Insurable Mortgage | The maximum insurable mortgage on a Section 234(c) loan is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.b. |
| 4155.2 1.C.11.e Section 234(c) Minimum Borrower Investment | The minimum borrower investment on a Section 234(c) loan is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.e. |
| 4155.2 1.C.11.f Section 234(c) Mortgage Term | The mortgage term on a Section 234(c) loan is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.f. |
| 4155.2 1.C.11.g Section 234(c) MIP Payment | The MIP on a Section 234(c) loan is paid as UFMIP and monthly. |
| 4155.2 1.C.11.h Section 234(c) Refinancing Policy | The refinancing policy on a Section 234(c) loan is that same as that for Section 203(b). <i>Reference:</i> For information on Section 203(b) refinancing, see <ul style="list-style-type: none">• HUD 4155.1 3.A., and• HUD 4155.1 3.B. |

12. Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs)

Introduction This topic contains information on Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs), including

- a description of the Section 238(c) program
 - the area eligibility policy
 - the application eligibility policy, and
 - MIP payment.
-

Change Date May 10, 2009

4155.2 1.C.12.a Description of the Section 238(c) Program The Section 238(c) Mortgage Insurance in MIAs program insures lenders against losses on mortgage loans financing the construction, repair, rehabilitation, or purchase of property near any military installation in federally-impacted areas.

Reference: For more information on Section 238(c), see [24 CFR 203.43e](#).

4155.2 1.C.12.b Section 238(c) Area Eligibility Policy Under the Section 238(c) program, for an area to be eligible for FHA-insured mortgage loans, the Secretary of Defense must have certified that

- there is a need for additional housing in the area, and
- there are no plans to close or relocate the military base during the five years following the certification.

4155.2 1.C.12.c Section 238(c) Application Eligibility Application eligibility for a Section 238(c) loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.12.d Section 238(c) MIP Payment The MIP on a Section 238(c) loan is paid monthly.

13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs)

Introduction This topic contains information on Section 245(a) GPMs and GEMs, including

- a description of GPMs
 - eligible occupancy/property types on a GPM
 - the maximum insurable mortgage on a GPM
 - the GPM mortgage term
 - MIP payment on a GPM
 - authorized GPM plans
 - the refinancing policy on GPMs
 - a description of GEMs
 - the maximum insurable mortgage on a GEM
 - the minimum borrower investment on a GEM
 - the GEM mortgage term
 - GEM authorized plans
 - MIP payment in a GEM, and
 - the refinancing policy on a GEM.
-

Change Date May 10, 2009

4155.2 1.C.13.a Description of a Section 245(a) GPM The Section 245(a) Graduated Payment Mortgage (GPM) program insures lenders against loss on a mortgage loan that involves graduated mortgage payments. The program facilitates early home ownership for households that expect their income to rise. Initially, monthly payments are smaller than payments in a level-payment mortgage, and gradually increase over time.

Five plans are available, varying in duration and rate of payment increase. Higher down payments are required under some plans. Mortgages are insured under Section 203(b) or 234(c), pursuant to Section 245(a). The requirements of the applicable section must be met.

Reference: For more information on Section 245(a) GPMs, see

- [HUD 4240.2](#), *The Graduated Payment Mortgage Program*, and
- [24 CFR 203.45](#).

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13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs), Continued

| | |
|---|---|
| 4155.2 1.C.13.b Eligible Occupancy/ Property Types for Section 245(a) GPMs | The GPM program is limited to principal residences. Only one-family dwellings are eligible. |
| <hr/> | |
| 4155.2 1.C.13.c Section 245(a) GPM Maximum Insurable Mortgage | <p>The principal amount of the GPM cannot exceed the <i>lesser</i> of</p> <ul style="list-style-type: none"> • the Section 203(b) statutory loan limit for the area • the applicable 203(b) LTV ratio, or • an amount which, when added to the deferred interest that will be added to the principal, does not exceed 97 percent of the value. <p>References: For information on the Section 203(b)</p> <ul style="list-style-type: none"> • statutory loan limits, see HUD 4155.2 1.C.2.c, and • LTV ratios, see HUD 4155.2 1.C.2.d. |
| <hr/> | |
| 4155.2 1.C.13.d Section 245(a) GPM Mortgage Term | The GPM mortgage term is the same as that of Section 203(b), found in HUD 4155.2 1.C.2.f . |
| <hr/> | |
| 4155.2 1.C.13.e Section 245(a) GPM MIP Payment | The GPM MIP payment policy is the same as that of the appropriate section under which the loan is insured. |

Continued on next page

13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs), Continued

4155.2 1.C.13.f
Authorized
Section 245(a)
GPM Plans

On GPM plans, monthly payments increase annually. Starting in the 6th year (for the 5 year plan) or the 11th year (for the 10 year plan), the monthly payments are level for the remaining term.

The table below lists the annual increases for the various plans.

| Plan | Annual Increase |
|-------------------|-----------------------------------|
| Plan I (Code A) | 2.5 percent each year for 5 years |
| Plan II (Code B) | 5 percent each year for 5 years |
| Plan III (Code C) | 7.5 percent each year for 5 years |
| Plan IV (Code D) | 2 percent each year for 10 years |
| Plan V (Code E) | 3 percent each year for 10 years |

4155.2 1.C.13.g
Section 245(a)
GPM
Refinancing
Policy

Section 245(a) *cannot* be used

- to draw equity out of property owned by the borrower, or
- when the present financing does not contain a mandatory prepayment clause.

Refinancing an existing mortgage is *only* permitted when the

- owner is required to pay-in-full a conventional mortgage used to purchase a home and the mortgage required a balloon payment within 3 to 5 years
- borrower has contracted to have a home built and, when construction is complete, the construction loan must be paid-in-full, or
- borrower purchased a home on a land contract or contract for deed.

Borrowers with a GPM *may* refinance at any time to a level-payment mortgage

- if the borrower is eligible for a streamline refinance, without an appraisal, or
- if the unpaid balance, including negative amortization, does not exceed the appropriate LTV ratio, based on a new appraisal.

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13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs), Continued

| | |
|---|---|
| 4155.2 1.C.13.h Description of the Section 245(a) GEM Program | <p>The Section 245(a) Growing Equity Mortgage (GEM) program insures lenders against loss on mortgage loans that involve increasing mortgage payments. There is no interest deferral or negative amortization with a GEM. Scheduled increases in monthly payments are applied to reduce the principal, resulting in a shorter term and lower total cost to the borrower.</p> <p>Mortgages are insured under Section 203(b), 203(k), or 234(c), pursuant to Section 245(a). Requirements of the appropriate section under which the loan is insured must be met.</p> <p><i>Reference:</i> For more information on Section 245(a) GEMs, see 24 CFR 203.47.</p> |
| 4155.2 1.C.13.i 245(a) GEM Maximum Insurable Mortgage | <p>The GEM maximum insurable mortgage is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.b.</p> |
| 4155.2 1.C.13.j Section 245(a) GEM Minimum Borrower Investment | <p>The GEM minimum borrower investment is the same as that of Section 203(b), found in HUD 4155.2 1.C.2.e.</p> |
| 4155.2 1.C.13.k Section 245(a) GEM Mortgage Term | <p>The GEM mortgage term varies with each plan and the mortgage interest rate.</p> |
| 4155.2 1.C.13.l Section 245(a) GEM MIP Payment | <p>The GEM MIP payment policy is the same as that of the appropriate section under which the loan is insured.</p> |

Continued on next page

13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs), Continued

4155.2 1.C.13.m Each GEM plan has an annual increase in the monthly payments for the life of the loan. For the initial year, the monthly payments to principal and interest are based on the 30 year level payment amortization schedule. Thereafter, monthly payments increase by a fixed percentage, as outlined in the table below

Authorized Section 245(a) GEM Plans and Payment Schedules

| Plan | Fixed Percentage Increase |
|-------------------|----------------------------------|
| Plan I (Code L) | 1 percent each year |
| Plan II (Code M) | 2 percent each year |
| Plan III (Code N) | 3 percent each year |
| Plan IV (Code O) | 4 percent each year |
| Plan V (Code P) | 5 percent each year |

4155.2 1.C.13.n The GEM refinancing policy is the same as that of the appropriate section under which the loan is insured.

Section 245(a) GEM Refinancing Policy

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL)

Introduction This topic contains information on Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL), including

- the property eligibility policy
- the borrower eligibility policy
- submitting a request for certificate of eligibility
- obtaining a copy of the homestead lease issued by DHHL
- summary of required loan documents unique to the Section 247 Program
- MIP payment
- the refinancing policy, and
- a reference for locating additional information on the Section 247 program.

Change Date May 10, 2009

4155.2 1.C.14.a Section 247 covers one- to four-family dwellings in Hawaii that are under a
Section 247 homestead lease.
Property
Eligibility
Policy

Continued on next page

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL), Continued

4155.2 1.C.14.b Section 247 Borrower Eligibility Policy

Borrower eligibility under Section 247 is limited to owner-occupants who are certified as native Hawaiians.

The term “native Hawaiian,” as used for mortgages to be insured under Section 247, is defined as “...*any descendant of not less than one-half part of the blood of the races inhabiting the Hawaiian islands before January 1, 1778, or, in the case of an individual who is awarded an interest in a lease of Hawaiian home lands through transfer or succession, such lower percentage as may be established under section 208 or section 209 of the Hawaiian Homes Commission Act of 1920 (42 Stat. 111), or under the corresponding provision of the Constitution of the State of Hawaii...*”

Additionally, Section 215 of the Department of Veteran Affairs (VA), HUD, and Independent Agencies Appropriations Act of 2002 also added subsection (e) to section 247, which provides that possession of a lease issued under section 207(a) of the Hawaiian Homes Commission Act of 1920 is sufficient to certify eligibility for a mortgage to be insured under section 247.

Note: Eligibility requires a certificate of eligibility issued by the Department of Hawaiian Home Lands.

4155.2 1.C.14.c Submitting a Request for Certificate of Eligibility on a Section 247 Mortgage

The Department of Hawaiian Home Lands (DHHL) has prepared a form, entitled “Request for Certification of Eligibility,” on which DHHL will certify that the native Hawaiian possesses a homestead lease in good standing (not cancelled or in default).

The lender or processing agency must complete the DHHL form and submit it directly to DHHL for completion. DHHL will issue the completed form to the lender who must keep it in the case file.

Note: DHHL is solely responsible for determining eligibility for a “Certificate of Eligibility” and its subsequent issuance.

Continued on next page

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL), Continued

4155.2 1.C.14.d Obtaining a Copy of the Homestead Lease Issued by DHHL for a Section 247 Mortgage

The lender must obtain a copy of the homestead lease issued by DHHL that identifies the proposed mortgagor as the lessee. This must be either

- an original homestead lease issued to the proposed mortgagor, or
- an original homestead lease, along with documentation showing succession or assignment of the homestead lease to the mortgagor and DHHL's consent to each and every transfer of the homestead lease.

Any amendments to the original homestead lease must be included as part of the documentation. All homestead lease documents must bear evidence of having been recorded at the DHHL.

4155.2 1.C.14.e Summary of Required Loan Documents Unique to the Section 247 Program

The loan documents unique to the Section 247 program that must be collected by the lender to establish the borrower's eligibility and included in the insurance binder submitted to FHA are as follows:

- DHHL Certification of native Hawaiian eligibility and status of the homestead lease used as security
 - Homestead lease issued by DHHL and any amendments and assignments of the homestead lease, with DHHL's Consent to each amendment or assignment
 - DHHL Mortgage Insurance Program Rider
 - Department of Hawaiian Home Land Mortgage form, and
 - DHHL Consent to Mortgage.
-

Continued on next page

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL), Continued

4155.2 1.C.14.f The MIP payment on a Section 247 loan is a one-time MIP only.
Section 247
MIP Payment

4155.2 1.C.14.g Refinancing is available under the Section 247 program.
Section 247
Refinancing
Policy

4155.2 1.C.14.h For more information on the Section 247 program, see [24 CFR 203.43i](#).
Locating
Additional
Information on
Section 247

15. Section 248 Single Family Mortgage Insurance on Indian Lands (IL)

Introduction This topic contains information on Section 248 Single Family Insurance on Indian Lands (IL), including

- the property eligibility policy
 - the borrower eligibility policy
 - the policy on eviction procedures
 - MIP payment
 - the refinancing policy, and
 - a reference for locating additional information.
-

Change Date May 10, 2009

**4155.2 1.C.15.a
Section 248
Eligibility
Policy** Section 248 covers one to four family dwellings on Indian lands, which are trust lands or otherwise restricted lands.

**4155.2 1.C.15.b
248 Borrower
Eligibility
Policy** Under Section 248, the borrower must be

- a member of an Indian tribe, or
- the tribe itself.

**4155.2 1.C.15.c
Section 248
Policy on
Eviction
Procedures** The Indian tribe must have adopted eviction procedures acceptable to FHA in order to qualify for a mortgage under Section 248.

**4155.2 1.C.15.d
248 MIP
Payment** The MIP payment on a Section 248 loan is paid monthly.

**4155.2 1.C.15.e
Section 248
Refinancing
Policy** Refinancing is available under the Section 248 program.

Continued on next page

15. Section 248 Single Family Mortgage Insurance on Indian Lands (IL), Continued

4155.2 1.C.15.f For more information on the Section 248 program, see [24 CFR 203.43h](#).
Additional
Information on
Section 248

16. Section 251 Adjustable Rate Mortgages (ARMs)

Introduction

This topic contains information on Section 251 ARMs, including

- a description of the Section 251 program
- the property eligibility policy
- the limitation on the number of ARMs that FHA may insure
- the maximum insurable mortgage
- the minimum borrower investment
- the mortgage term
- interest rate adjustments
- required disclosures
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

**4155.2 1.C.16.a
Description of
the Section 251
Program**

The Section 251 ARMs program insures lenders against losses on variable rate mortgages. Mortgages are insured under Section 203(b), 203(h), 203(k) or 234(c), pursuant to Section 251.

Note: Requirements of the appropriate section must be met.

**4155.2 1.C.16.b
Section 251
Property
Eligibility
Policy**

To be eligible under Section 251, properties must be one- to four-family dwellings or condominium units.

**4155.2 1.C.16.c
Limitation on
the Number of
ARMs That
FHA May
Insure Under
Section 251**

The number of ARMs that FHA may insure in a year is limited to 30 percent of the total number of mortgages insured under Title II during the preceding fiscal year.

Continued on next page

16. Section 251 Adjustable Rate Mortgages (ARMs), Continued

| | |
|---|---|
| 4155.2 1.C.16.d Section 251 Maximum Insurable Mortgage | The maximum insurable mortgage on a Section 251 mortgage loan is the same as that of the appropriate section under which the loan is insured. |
|---|---|

| | |
|---|--|
| 4155.2 1.C.16.e Section 251 Minimum Borrower Investment Policy | The minimum borrower investment on a Section 251 mortgage loan is the same as that of the appropriate section under which the loan is insured. |
|---|--|

| | |
|--|---|
| 4155.2 1.C.16.f Section 251 Mortgage Term | Under Section 251, <i>only</i> 30-year mortgages are permitted. |
|--|---|

| | |
|--|--|
| 4155.2 1.C.16.g Section 251 Interest Rate Governing Index | <p>The interest rate governing index is the weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year (published in the Federal Reserve Board's Statistical Release H.15(519)), which is available on the Federal Reserve System Web site at www.federalreserve.gov. The rate must be the one effective 30 calendar days before the Change Date.</p> <p>Reference: For more information on the governing index, see HUD 4155.1 6.B.4.</p> |
|--|--|

| | |
|---|--|
| 4155.2 1.C.16.h Allowable Interest Rate Adjustments and Caps Under Section 251 | <p>The allowable interest rate adjustments and caps under the Section 251 program are as follows:</p> <ul style="list-style-type: none"> • the 1, 3, and 5 year ARMs allow <ul style="list-style-type: none"> – a one percentage point annual interest rate adjustment after the initial fixed interest rate period, and – a five percentage point interest rate cap over the life of the loan, and • the 7 and 10 year ARMs allow <ul style="list-style-type: none"> – a two percentage point annual interest rate adjustment after the initial fixed interest rate period, and – a six percentage point interest rate cap over the life of the loan. |
|---|--|

Continued on next page

16. Section 251 Adjustable Rate Mortgages (ARMs), Continued

4155.2 1.C.16.i
Section 251
Interest Rate
Adjustment
Frequency

Interest rate adjustments occur on an annual basis. However, there are restrictions regarding the time frame during which the first adjustment must occur.

The table below indicates the time period within which the first adjustment must occur.

| ARM Type | Required Time Frame for First Adjustment |
|-------------|---|
| 1-year ARM | No sooner than 12 months nor later than 18 months |
| 3-year ARM | No sooner than 36 months nor later than 42 months |
| 5-year ARM | No sooner than 60 months nor later than 66 months |
| 7-year ARM | No sooner than 84 months nor later than 90 months |
| 10-year ARM | No sooner than 120 months nor later than 126 months |

Note: The date of the first adjustment to the interest rate and the frequency of adjustments must be specified in the mortgage documents.

4155.2 1.C.16.j
Section 251
Required
Disclosures

The table below lists the various required disclosures for Section 251 mortgages.

| Timing/Frequency of Disclosure | Requirement |
|--------------------------------|--|
| At Application | Before signing the application, the borrower must receive and sign an ARM disclosure statement prescribed by the Federal Reserve Board. |
| Annually | The lender must send the borrower a notice at least 25 days before the change date (that is, 25 days before the new payment amount is due). The notice must include <ul style="list-style-type: none"> • the prior year’s interest rate, monthly payments and governing index • the current value of the index, loan margin, new interest rate and new monthly payments, and • an explanation of how the new interest rate was calculated. |

Continued on next page

16. Section 251 Adjustable Rate Mortgages (ARMs), Continued

4155.2 1.C.16.k The MIP payment policy on a Section 251 loan is the same as that of the
Section 251 appropriate section under which the loan is insured.
MIP Payment

4155.2 1.C.16.l Owner-occupants may refinance any loan to an FHA ARM.
Section 251
Refinancing *Reference:* For more information on ARM underwriting details, see [HUD](#)
Policy [4155.1 6.B.3](#).

17. Section 255 Home Equity Conversion Mortgage (HECM)

Introduction This topic contains information on the Section 255 Home Equity Conversion Mortgage (HECM), including

- a description of the Section 255 program
 - the borrower and property eligibility policy
 - plan payments and interest rates
 - MIP payment, and
 - the refinancing policy.
-

Change Date October 26, 2009

4155.2 1.C.17.a Description of the Section 255 Program The Section 255 HECM program insures lenders against loss on reverse mortgages, which convert equity into monthly income or lines of credit.

Reference: For complete Section 255 programmatic instructions, see [HUD Handbook 4235.1](#), *Home Equity Conversion Mortgages*.

4155.2 1.C.17.b Section 255 Borrower and Property Eligibility Policy

Under Section 255

- borrowers must be 62 years of age or older, and must occupy the property as their primary residence (unless one of the borrower(s) is temporarily or permanently in a nursing home.
 - one to four dwellings are eligible. However, the maximum claim amount can not exceed that of a one family dwelling.
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4155.2 1.C.17.c Section 255 Plan Payments and Interest Rates

Plans include line of credit and/or monthly payments for a term (fixed period) or tenure (life). Interest rates may be fixed or adjustable.

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17. Section 255 Home Equity Conversion Mortgage (HECM),

Continued

4155.2 1.C.17.d
Section 255
MIP Payment

The MIP is paid as

- two percent of the maximum claim amount prior to insurance endorsement, and
- a monthly MIP based on the outstanding balance thereafter.

4155.2 1.C.17.e
Section 255
Refinancing
Policy

Refinancing is permitted on FHA/HECM loan to another FHA/HECM.

References: For additional information on Refinancing Existing Home Equity Conversion Mortgages, see

- [ML 09-21](#), and
 - [HUD 4235.1](#), *Home Equity Conversion Mortgages*.
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Section D. FHA Connection

Overview

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

| Topic | Topic Name | See Page |
|--------------|---|-----------------|
| 1 | Overview of the FHA Connection | 1-D-2 |
| 2 | Accessing the FHA Connection | 1-D-6 |
| 3 | Requests for an FHA Case Number | 1-D-9 |
| 4 | Canceling and Reinstating Case Numbers | 1-D-10 |
| 5 | Transferring Case Numbers Between Lenders | 1-D-11 |

1. Overview of the FHA Connection

Introduction This topic contains general information on the FHA Connection, including

- a description of FHA Connection
 - the requirement that Direct Endorsement (DE) lenders use the FHA Connection
 - FHA Connection functionality
 - FHA Connection Help Screen information
 - FHA Connection error messages
 - the requirement to enter appraisal information into FHA Connection, and
 - FHAC B2G.
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Change Date May 10, 2009

4155.2 1.D.1.a Description of FHA Connection The FHA Connection is an interactive portal on the Internet that provides approved FHA lenders real-time access to several FHA systems, including FHA's Computerized Homes Underwriting Management System (CHUMS)

Reference: For more information, see the FHA Connection User Guide on the FHA Connection.

4155.2 1.D.1.b Requirement That DE Lenders Use FHA Connection Direct Endorsement (DE) lenders must use FHA Connection to electronically

- process case number assignments, inspector assignments, appraisal information, and case cancellations (until the process is updated), and
- receive
 - insurance, and
 - loan data.

Note: Home Ownership Centers (HOCs) will *not* accept telephone or mail requests for case numbers, case status, or other actions that can be performed by the lender through the FHA Connection.

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1. Overview of the FHA Connection, Continued

**4155.2 1.D.1.c
FHA
Connection
Functionality**

The FHA Connection provides lenders with the ability to perform the following transactions electronically:

- request
 - FHA case number assignments
 - appraiser assignments
 - case queries
 - refinance authorizations
 - insurance
 - inspector assignments
 - loan data
 - case cancellations (until the process is updated)
 - Credit Alert Interactive Voice Response System (CAIVRS) authorizations
 - Reports, and
 - HECM insurance
- transfer cases to other lenders or sponsors
- query approval lists
- create
 - Institutional Master File (IMF) sponsor relationships, and
 - Authorized agents for Title II
- register
 - underwriters, and
 - automated underwriting systems
- change IMF addresses
- inquiry IMF addresses, and
- add Title I and Title II branches.

Continued on next page

1. Overview of the FHA Connection, Continued

4155.2 1.D.1.d Help Screen Information

A Help ? icon is located on the upper right hand corner of each FHA Connection screen to assist the user. The Help window describes the system

- functions
- data entry fields
- valid data entries, and
- information that is returned to the user upon performing various functions.

Note: The Help screens should be consulted prior to calling FHA for help with the data entry fields.

4155.2 1.D.1.e FHA Connection Error Messages

FHA Connection users receive immediate feedback, in the form of an electronic error message, on reasons for possible non-insurance. Lenders must correct any errors before cases are submitted for insurance.

Reference: For information on the types of error messages that must be corrected by the lender prior to submitting the case binder for insurance, see the *FHA Connection User Guide*.

4155.2 1.D.1.f Requirement to Enter Appraisal Information Into FHA Connection

For all cases, including Home Equity Conversion Mortgages (HECMs)

- the appraiser must send his/her appraisal and one copy to the lender (the appraiser should not mail the appraisal to the HOC), and
- the lender is required to enter the appraisal information into the FHA Connection prior to receiving insurance

When mailing the HUD case binder to the HOC, the DE lender must include the original appraisal and copy provided by the appraiser.

Note: Lenders originating HECM loans enter the appraisal information into FHA Connection in order for the system to calculate the mortgage insurance premium (MIP).

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1. Overview of the FHA Connection, Continued

4155.2 1.D.1.g FHAC B2G

The FHA Connection Business-to-Government (FHAC B2G) specification allows lenders to transmit data directly from their own internal loan processing systems to FHA without rekeying data into the FHA Connection or functional equivalent.

B2G reduces the data entry burden for lenders and allows for efficient transmission of large volumes of data to FHA. The FHAC B2G Guide and a list of available functions and enhancements may be found at <http://www.hud.gov/offices/hsg/sfh/f17c/welcome.cfm>

2. Accessing FHA Connection

Introduction This topic contains information on accessing the FHA Connection, including

- where to access FHA Connection
 - the user ID requirement and types of IDs, and
 - the process for obtaining user IDs.
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Change Date May 10, 2009

4155.2 1.D.2.a The FHA Connection is accessed on the Internet

**Where to
Access FHA
Connection**

- from the HUD Web site at www.hud.gov, or
- at <https://entp.hud.gov/clas>.

Also available at the HUD Web site are the

- *FHA User Guide*, with in-depth instructions on using the portal, and
 - *Mortgagee Packet*, which describes the functions available to lenders.
-

4155.2 1.D.2.b A user ID is necessary to sign onto the FHA Connection portal. The two types of user IDs that are issued are the

**User ID
Requirement
and Types of
IDs**

- Application Coordinator ID, and
- Standard ID.

Each lender must designate, at the corporate level, an Application Coordinator prior to requesting standard IDs.

Note: A maximum of two Application Coordinator IDs may be issued per lender at the corporate level.

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2. Accessing FHA Connection, Continued

**4155.2 1.D.2.c
Process for
Obtaining User
IDs**

The table below describes the stages in the process for obtaining Application Coordinator and standard user IDs.

| Stage | Description |
|-------|--|
| 1 | The lender designates an Application Coordinator (or a maximum of two Coordinators). |
| 2 | <p>The Application Coordinator obtains an ID by completing the FHA Application Coordinator Registration Form on the FHA Connections Web site with the following information:</p> <ul style="list-style-type: none"> • name • Social Security number (SSN) • lender ID • e-mail address • mother’s maiden name • desired password, and • the system name for which they are applying for the ID. |
| 3 | <p>After successfully completing the form</p> <ul style="list-style-type: none"> • the system generates a user ID which is mailed to the lender President/CEO, and • the President/CEO forwards the ID upon receipt to the Application Coordinator. <p><i>Note:</i> If the President/CEO feels that the applicant should not receive this ID, he/she may contact the Help Line to have the ID terminated.</p> |
| 4 | <p>Once the Application Coordinator has his/her ID, other lender employees may request standard IDs for themselves by</p> <ul style="list-style-type: none"> • completing the FHA Connection ID Registration form, indicating that they are requesting standard IDs, and • providing the same information as in Stage 2. |

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2. Accessing FHA Connection, Continued

4155.2 1.D.2.c Process for Obtaining User IDs (continued)

| Stage | Description |
|-------|--|
| 5 | After the employees successfully complete the registration <ul style="list-style-type: none">• the system generates the standard IDs, and• the Application Coordinator is able to retrieve the IDs from the system. |
| 6 | The Application Coordinator uses the FHA Connection Maintenance Screen to <ul style="list-style-type: none">• grant company employees the proper authorizations and access to the different applications (such as Case Query, Appraiser Reassignment, Insurance Processing, and so on), and• remove IDs, when necessary, from the system. |

3. Requests for an FHA Case Number

Change Date May 10, 2009

**4155.2 1.D.3.a
Requesting an
FHA Case
Number** Lenders must request and obtain an FHA case number using the FHA Connection or its functional equivalent.

 The lender must also use the FHA Connection to transmit any additional FHA information on a particular property.

4. Canceling and Reinstating Case Numbers

Introduction This topic contains general information on canceling and reinstating case numbers, including

- notification of case number cancellation
 - automatic case number cancellations by the system, and
 - the reinstatement of case numbers.
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Change Date May 10, 2009

4155.2 1.D.4.a Notification of Case Number Cancellation Lenders must fax a cancellation request, specifying the reason for cancellation, to the appropriate HOC to close outstanding files and cancel an FHA case number if

- an appraisal has not been completed and the borrower will not close the loan as an FHA loan
- the FHA mortgage insurance will not be sought, or
- the appraisal has already expired.

Reference: For information on requesting an FHA case number, see [HUD 4155.2 1.D.3.](#)

4155.2 1.D.4.b Automatic Case Number Cancellations by the System FHA's systems (FHAC/CHUMS) automatically cancel an uninsured case number 13 months after the last action taken on the loan/case.

4155.2 1.D.4.c Reinstatement of Case Numbers If a case number has been canceled, and FHA insurance *will* be sought, the lender must fax a request to the appropriate HOC, requesting that the case number be reinstated to an active status.

5. Transferring Case Numbers Between Lenders

Introduction This topic contains information on transferring case numbers between lenders, including

- requirements for the transferring lender
 - a transfer involving a new borrower using an existing appraisal
 - a case number transfer involving a rejected loan, and
 - a case number transfer involving a Master Appraisal Report (MAR).
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Change Date May 10, 2009

4155.2 1.D.5.a Requirements for the Transferring Lender Transferring lenders are expected to cooperate in the transfer of case numbers. At a borrower's request, the lender must assign the case number to the new lender using the Case Transfer function in the FHA Connection. Additionally, the transferring lender

- is *not* entitled to a fee for the transfer of a streamline refinance case number, regardless of the current stage of processing for the loan
- may be entitled to any lock-in fee collected from a borrower at the time of application
- *is* required to provide the new lender with the appraisal, but is *not* required to provide any processing documents.

Note: If processing documents *are* provided, the lender

- must negotiate the fee with the new lender, and
- is *not* authorized to charge the borrower a separate fee for the transfer of the processing documents.

Reference: For more information on the FHA Connection, see [HUD 4155.2 1.D.2.](#)

Continued on next page

5. Transferring Case Numbers Between Lenders, Continued

4155.2 1.D.5.b New Borrower Using an Existing Appraisal

If a case number transfer involves a new borrower using an existing appraisal, the new lender

- collects an appraisal fee from the new borrower, and
 - sends the fee to the original lender, who, in turn, refunds the fee to the original borrower.
-

4155.2 1.D.5.c Case Number Transfer Involving a Rejected Loan

If the transfer involves a rejected loan, the original lender must complete the Mortgage Credit Reject function in FHA Connection prior to transferring the loan.

Reference: For more information on the FHA Connection, see [HUD 4155.2 1.D.2.](#)

4155.2 1.D.5.d Case Number Transfer Involving a MAR

If a case number transfer involves a Form [HUD 91322.1](#), *Master Appraisal Report (MAR)*, the transferring lender is only entitled to a pro-rata share of the cost of the MAR.

While a lender may have provided resources to obtain the MAR in anticipation of capturing most if not all of the individual mortgage loans, it may not deny an appraisal assignment request to a borrower who wishes to use an alternative mortgage lender.

Example: If the MAR is for 100 units at a cost of \$10,000, the new lender pays the transferring lender \$100.
