

Chapter 3. Mortgage Loan Requirements and Eligibility Criteria

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Section A. Loan Application and Finance-Related Policies

Overview

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1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term

Introduction This topic contains information on maximum loan limits, mortgage amounts and mortgage terms, including

- the National Housing Act provisions on loan limits
 - basic nationwide loan limits
 - loan limits for high cost areas
 - appeals for higher loan limits
 - additional information on loan limit appeals
 - maximum LTV ratios, and
 - maximum mortgage terms.
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Change Date May 10, 2009

**4155.2 3.A.1.a
National
Housing Act
Provisions on
Loan Limits**

The statutory provisions of the National Housing Act establish the maximum loan limits and mortgage amounts for all FHA mortgage insurance programs. Maximum loan limits vary depending upon the

- specific program under which a loan is insured
- number of units with the dwelling (one to four units), and
- geographic location of the property.

Under most programs, the maximum insurable mortgage is the *lesser* of

- the statutory loan limit for the area, or
- a percentage of the *lesser* of the
 - appraised value, or
 - sales price.

Reference: For more information on calculating maximum mortgage amounts and maximum loan to value (LTV) ratios, see [HUD 4155.1 2.A.](#)

Continued on next page

1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term, Continued

4155.2 3.A.1.b Basic Nationwide Loan Limits

FHA's single family mortgage limits are set by county and are tied to increases in the loan limits established by the Federal Home Loan Mortgage Corporation (Freddie Mac) in accordance with Section 203(b)(2)(A) of the National Housing Act, as amended by [12 United States Code \(U.S.C.\) 1709](#).

Under Section 203(b), the nationwide basic mortgage limits ("the floor") may not be less than 65 percent of the dollar amount limitation of Freddie Mac.

References: For more information on

- the specific loan limits for each county in the United States, Guam, and the Virgin Islands, see HUD's Web site at www.hud.gov, and
 - calculating maximum mortgage amounts and maximum LTV ratios, see [HUD 4155.1 2.A](#).
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4155.2 3.A.1.c Loan Limits for High Cost Areas

Section 203(b)(2)(A) of the National Housing Act states that mortgage limits in high cost areas ("the ceiling") may increase to 150 percent of the dollar amount limitation as described under Section 305(a)(2) of Freddie Mac for a residence of applicable size.

In these high cost areas, the loan limit is equal to the *lesser* of

- 115 percent of the area median house price, or
- the statutory ceiling for the high cost areas.

Section 214 of the National Housing Act provides that mortgage limits for Alaska, Hawaii, Guam, and the Virgin Islands may be adjusted up to 150 percent of the new FHA ceilings.

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1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term, Continued

4155.2 3.A.1.d Appeals for Higher Loan Limits

Anyone may appeal for a higher loan limit for a

- county within a Metropolitan Statistical Area (MSA) or
- non-metro county not part of an MSA.

It should be noted, however, that legislation enacted in 1998 provided that the county with the highest median house price in an MSA determines the mortgage limits of all counties within that MSA. For this reason, any request for an increase must be accompanied by sufficient housing sales price data to justify higher limits. The sales price data submitted to support an increase must be a listing of all one-family properties sold in the area for a period of time that will vary depending on the volume of sales.

Note: FHA will *not* consider an appeal for an area smaller than a county.

4155.2 3.A.1.e Additional Information on Loan Limit Appeals

Contact the local Home Ownership Center (HOC) for additional information on appeals of FHA mortgage limits.

4155.2 3.A.1.f Maximum LTV Ratios

A mortgage that is to be insured by FHA cannot exceed a certain percentage of property value. The maximum LTV ratios vary depending upon the

- type of borrower
- type of transaction (purchase or refinance), and
- stage of construction.

References: For more information on

- maximum LTV ratios for purchase transactions, see [HUD 4155.1 2.A](#)
 - transactions that affect maximum mortgage calculations, see [HUD 4155.1 2.B](#), and
 - maximum mortgage amounts on refinance transactions, see [HUD 4155.1 3.B](#).
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1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term, Continued

4155.2 3.A.1.g Maximum Mortgage Terms

The maximum mortgage term may not exceed 30 years from the date that amortization begins. In the case of adjustable rate mortgages (ARMs), the term must be for 30 years. FHA does not require that loan terms be in five year multiples.

Note: Some programs require a shorter term, including certain streamline refinances made without appraisals.

Reference: For more information on streamline refinances without appraisals, see [HUD 4155.1 3.C.2.](#)

2. Policies on Interest Rates and Related Fees

Introduction This topic contains information on FHA policies regarding mortgage loan interest rates and related fees, including

- establishment of the interest rate
 - fees for lock-ins or rate locks
 - the required borrower disclosure, and
 - circumstances requiring borrower requalification.
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Change Date May 10, 2009

**4155.2 3.A.2.a
Establishment
of the Interest
Rate** Under all currently active FHA single family mortgage insurance programs, the interest rate and any discount points are negotiated between the borrower and the lender.

**4155.2 3.A.2.b
Fees for Lock
Ins or Rate
Locks** Lenders are permitted to charge a commitment fee to guarantee, in writing, the interest rate and discount points for a specific period of time or to limit the extent to which they may change.

The minimum time for lock ins or rate locks is 15 days. The loan may close in less than 15 days at the convenience of the borrower, and the lock in fees may still be earned. Lenders *must* honor all such commitments.

**4155.2 3.A.2.c
Required
Borrower
Disclosure** The lender must provide the borrower with [HUD-92900-B](#), *HUD Interest Rate Disclosure Statement* to explain that the loan terms are negotiable.

**4155.2 3.A.2.d
Circumstances
Requiring
Borrower
Requalification** A borrower must be requalified if there is any increase in either

- discount points, or
- the interest rate.

3. Mortgage Note and Security Instrument Requirements

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**4155.2 3.A.3.a
FHA
Requirement
for Mortgage
Note and
Security
Instrument**

The note and security instrument (mortgage, deed of trust, or security deed) must meet FHA requirements. FHA may prescribe either

- the complete mortgage instrument, or
- the use of FHA-approved uniform language, for cases in which FHA does *not* prescribe the complete mortgage instrument.

Reference: For more information on the mortgage note and security instrument, see [HUD 4155.2 6.B.](#)

4. Policies on Prepayment

Introduction This topic contains information on FHA policies on prepayment, including

- the FHA prepayment policy, and
- mortgages on which advance notice of prepayment is required.

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**4155.2 3.A.4.a
FHA
Prepayment
Policy** For FHA-insured mortgages, neither a prepayment penalty nor a due on sale clause is permitted, *except* for cases in which FHA approves a due-on-sale clause in connection with

- tax exempt bond financing by State or local governments, or
- the implementation of statutory restrictions on assumptions.

A borrower may prepay a mortgage, in whole or in part, on the first of any month. If the payment is received *after* the first of the month, the lender may, at its discretion, collect the remainder of the month's interest.

Note: Mortgage insurance may be terminated via payment in full, conveyance for insurance benefits, and voluntary termination upon agreement between the borrower and lender.

**4155.2 3.A.4.b
Mortgages on
Which Advance
Notice of
Prepayment Is
Required** If a mortgage was insured

- *before* August 2, 1985,
 - the borrower must provide 30 days written notice to the lender or be charged one extra month's interest, and
 - the payment must also reach the lender by the first of the month, or
- *on or after* August 2, 1985,
 - if the payment is received after the first of the month, the lender may, at its option, collect the remainder of the month's interest, and
 - advance notice is not required.

5. Policy on Assumptions

Change Date May 10, 2009

**4155.2 3.A.5.a
FHA Policy on
Assumptions** FHA-insured Mortgage originated before December 1, 1986 generally contain no restrictions on assumability. For mortgages originated *after* that date, the loan *may* be assumable under certain conditions.

Reference: For more information on assumptions, see [HUD 4155.1 7](#).

Section B. Loans Involving HUD Employees, Relationships Posing a Possible Conflict of Interest, and Lender Employees

Overview

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

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3	Loans Involving Lender Employees	3-B-4

1. Loans Involving HUD/FHA Employees

Introduction This topic contains information on loans that involve HUD/FHA employees, including

- who processes HUD/FHA employee loan applications, and
 - DE processing ineligibility.
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Change Date May 10, 2009

**4155.2 3.B.1.a
Who Processes
HUD Employee
Applications** The jurisdictional HOC is responsible for processing HUD/FHA employee loan applications.

**4155.2 3.B.1.b
DE Processing
Ineligibility** Loan applications from HUD/FHA employees are *not* eligible for DE processing. For loan applications involving HUD/FHA employees, the lender must

- process the loan application, and
- submit the complete underwritten loan package to the attention of the Processing and Underwriting Division Director for commitment processing and approval.

The HOC reviews the loan package, and approves or rejects the loan for the HUD/FHA employee.

Exception: For streamline refinances *only*, any HUD/FHA employee or member of their household (for example, spouse, parent, or child) may have their streamline refinance processed by a DE lender.

Reference: For more information on streamline refinances, see [HUD 4155.1 3.C](#) and [HUD 4155.1 6.C](#).

2. Loans Involving a Business Relationship Posing a Possible Conflict of Interest

Change Date May 10, 2009

**4155.2 3.B.2.a
Policy on DE
Program
Participation
by Entities
With a Possible
Conflict of
Interest**

A mortgage lender that has provided a construction loan, or has a financial interest in, owns, is owned by, or is affiliated with the building or selling entity or real estate firm, may originate mortgages under the DE Lender program *provided* that

- the appraisal is performed by a qualified, independent, FHA-approved fee appraiser, and
- when required, inspections are performed by fee inspectors on the FHA Inspector Roster.

Mortgage lender personnel may perform the mortgage credit analysis.

3. Loans Involving Lender Employees

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**4155.2 3.B.3.a
Requirements
for Mortgage
Loans
Involving
Lender
Employees**

If a mortgage lender employee is the borrower or seller in a mortgage loan transaction

- the employee *cannot* be involved in processing the application
 - an independent, FHA appraiser, who is not affiliated with the mortgagee, must be used
 - if an inspection is involved, it must be performed by an FHA-approved fee inspector
 - the application should be processed by a different branch from the one at which the employee works, or by the mortgage lender's main office, and
 - the case must be clearly annotated with "Employment" on the [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*, and on the front of the case binder.
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Section C. Mortgage Loan Application Documentation Requirements

Overview

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

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2	Mortgage Loan Application Documentation Requirements	3-C-4
3	Mortgage Loan Application Document Processing	3-C-7

1. General Documentation Standards

Introduction This topic contains information on the general documentation standards for mortgage loans, including

- signing mortgage loan application forms
 - verification form authorization
 - establishing a borrower's financial position
 - using self-adhesive labels, and
 - signing in blank.
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**4155.2 3.C.1.a
Signing
Mortgage Loan
Application
Forms** Mortgage loan application forms must be signed and dated by all borrowers

- applying for the mortgage, and
- assuming responsibility for the mortgage debt.

**4155.2 3.C.1.b
Verification
Form
Authorization** Instead of requiring borrowers to sign multiple verification forms, the lender may ask the borrower to sign a general authorization form giving the lender blanket authority to verify information needed to process the mortgage loan application, including

- past and present employment records
- bank accounts, and/or other investment accounts.

If the lender uses a general authorization form, he/she must attach a copy of the authorization to each verification form sent out.

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1. General Documentation Standards, Continued

4155.2 3.C.1.c Documentation of a Borrower's Financial Position

To get a complete picture of a borrower's financial position, the lender *must* ask the borrower, and document borrower responses, to questions regarding the

- source of funds for the transaction, and
- intended use of the property.

Note: The lender is also responsible for verifying, and documenting verification of, the borrower's identity.

4155.2 3.C.1.d Using Self Adhesive Labels

Lenders may use self adhesive signature labels for laser printed verifications. Each label must

- completely and clearly indicate its use, and
 - contain the Privacy Act notification.
-

4155.2 3.C.1.e Signing in Blank

Lenders may not ask borrowers to sign documents in blank, or on blank sheets of paper.

2. Mortgage Loan Application Documentation Requirements

Introduction This topic contains information on the requirements for mortgage loan application documentation, including

- who completes the loan application
 - loan application name requirements
 - contents of the loan application package
 - age of the loan application documentation
 - verifying the age of the loan application documentation
 - VOD and VOE authenticity
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Change Date May 10, 2009

**4155.2 3.C.2.a
Who Completes
the Mortgage
Loan
Application** All borrowers must complete the mortgage loan application and all additional FHA documents.

**4155.2 3.C.2.b
Mortgage Loan
Application
Name
Requirements** Except for nonprofit corporations that provide assistance to low and moderate income families, all mortgage loan applications *must* be in one or more individual's name.

Mortgage loan applications from a corporation, partnership, sole proprietorship, or trust *must*

- *also* provide the name of one or more individuals, and
- be analyzed on the basis of the individual *and* the organization.

Reference: For more information on the eligibility of nonprofit organizations to apply for an FHA-insured mortgage, see [HUD 4155.1 4.A.6](#).

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2. Mortgage Loan Application Documentation Requirements, Continued

**4155.2 3.C.2.c
Contents of the
Mortgage Loan
Application
Package**

The mortgage loan application package must contain all documentation that supports the lender's decision to approve the mortgage loan.

When standard documentation does not provide enough information to support the approval decision, the lender must provide additional, explanatory statements that are consistent with information in the application. The explanatory statements must clarify or supplement the documentation submitted by the borrower.

**4155.2 3.C.2.d
Age of the
Mortgage Loan
Application
Documentation**

At the time that the loan closes, all documents in the mortgage loan application may be up to 120 days old, or 180 days old for new construction, unless

- a different time frame is specified in this HUD handbook or in other applicable HUD instructions, or
- the nature of the documents is such that validity for underwriting purposes is not affected by the prescribed time frame, such as with
 - divorce decrees, or
 - tax returns.

If the age of documents exceeds the above limits, written verification of the documentation must be obtained as described in [HUD 4155.2 3.C.2.e](#).

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2. Mortgage Loan Application Documentation Requirements, Continued

**4155.2 3.C.2.e
Written
Verification of
the Age of
Mortgage Loan
Application
Documents**

Updated, written verification of the mortgage loan application documentation must be obtained when the documents exceed the time frames described in [HUD 4155.2 3.C.2.d](#).

Verification forms, or documents used as an alternate to written verification forms, must pass directly between the lender and provider without being handled or transmitted by any third party or using any third party's equipment.

No document used to process or underwrite a loan may be handled or transmitted by or through an interested third party to the transaction.

**4155.2 3.C.2.f
VOD/VOE
Authenticity**

The Verification of Deposit (VOD) and Verification of Employment (VOE) may be faxed documents or printed pages from the Internet if they clearly identify the source, such as containing the names of the borrower's employer or depository/investment firm.

The lender *must* ascertain the authenticity of the documents by examining the information included in the document's header and footer. A printed Web page must show the

- uniform resource locator (URL) address, and
 - the date and time the document was printed.
-

**4155.2 3.C.2.g
Requirement to
Provide HUD-
92564-CN to
Borrower**

Lenders are required to provide form HUD-92564-CN, "*For Your Protection: Get a Home Inspection*" to borrowers at first contact, be it pre-qualification, pre-approval, or initial application. In any case, the lender must provide the form to the borrower *no later than* initial loan application.

A copy of the form in a PDF file format is available online at <http://www.hudclips.org>

3. Mortgage Loan Application Document Processing

Introduction This topic contains information on document processing of the mortgage loan application, including

- signing and dating mortgage insurance applications
 - using a signed initial URLA and Addendum
 - who signs the Addendum, and
 - use of a power of attorney (POA) for loan application execution.
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Change Date May 10, 2009

**4155.2 3.C.3.a
Signing and
Dating
Mortgage
Insurance
Applications** The application for mortgage insurance must be signed and dated by the borrower(s) before underwriting the loan, due to

- various disclosure requirements, and
- the belief that borrowers are best served when required certifications are divulged as early as possible in the loan application process.

**4155.2 3.C.3.b
Using a Signed
Initial URLA
and Addendum** FHA recognizes the burden on lenders and borrowers of having to resign various documents after the loan application is taken. To alleviate this burden, lenders are permitted to process and underwrite the loan after the borrower completes an *initial* Uniform Residential Loan Application (URLA), and *initial* Addendum.

If the lender asks the borrower to complete an initial Addendum based on the preliminary information obtained when he/she applies for the loan, the final loan application or Addendum does *not* need to be signed before underwriting.

The underwriter must condition the loan approval for the final URLA and Addendum to be signed and dated by the borrower(s) anytime before or at loan closing.

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3. Mortgage Loan Application Document Processing, Continued

4155.2 3.C.3.c Who Signs the Addendum The table below describes the signatures required on different pages of the Addendum.

Page ...	Must be signed by ...
one of the <i>initial</i> Addendum	the interviewer.
one of the <i>final</i> Addendum	anyone authorized to bind the company in its business dealing with HUD.
two of the <i>initial</i> Addendum	the borrower(s) in two places <ul style="list-style-type: none"> • Part IV the borrower(s) is providing consent for the SSA to verify their own SSN, and • Part V the borrower(s) is acknowledging the certifications.
three of the <i>final</i> Addendum	must be signed and dated the DE underwriter, or the mortgagee representative's for "accept" or "approved" for manually or AUS approved loans, approval of loan term with the approval date and expiration date.
four of the Addendum	the borrower at loan closing.

Reference: For more information on requirements regarding an initial and/or final URLA and Addendum, see [HUD 4155.2 3.C.3.b](#).

3. Mortgage Loan Application Document Processing, Continued

**4155.2 3.C.3.d
Use of a Power
of Attorney for
Mortgage Loan
Application
Execution**

The *initial* mortgage loan application *may not* be executed by using a power of attorney, *except* in circumstances as indicated in the table below.

Note: Either the *initial* application or the final, if one is used, must contain the signatures of all borrowers.

Reference: For information on the use of a power of attorney for closing documents, see [HUD 4155.2 6.A.1.f.](#)

Permissible Use of a Power of Attorney for a Loan Application	Policy Description
Military personnel	A power of attorney may be used for military personnel on overseas duty or on an unaccompanied tour. The lender should obtain the service person’s signature on the application by mail or fax machine.
Incapacitated borrowers	<p>A power of attorney may be used for incapacitated borrowers who are unable to sign the mortgage application.</p> <p>The lender must provide evidence that the signer has authority to purchase the property and to obligate the borrower. Acceptable evidence includes a durable power of attorney specifically designed to survive incapacity and avoid the need to court proceedings.</p> <p>The incapacitated individual must occupy the property to be insured, except on eligible investment property.</p> <p>Reference: For information on eligible investment properties, see HUD 4155.1 4.B.4.</p>