

To: All Customers **From:** Credit Risk
Date: 12/17/20 **Memo #:** 20119
Subject: **Updates to FHA Single Family Handbook and New Construction Requirements**

FHA published an update to Single Family Housing Policy Handbook 4000.1 ([SF Handbook](#)). This update includes revisions and additional clarifications to various FHA policies and programs throughout the SF Handbook.

As a quick reference, following are some Key Changes included in each section:

SECTION I — DOING BUSINESS WITH FHA

- Clarification of the application and eligibility financial requirement for the covered audit period by stating a Mortgagee's audited financial statements must cover the most recent fiscal year. For companies operating fewer than 12 months, the audited financial statements must cover all months of operation.
- Clarification and alignment with 24 C.F.R. § 202.5(m)(1) of the Post-Approval reporting requirement for a Mortgagee that experiences an operating loss of 20 percent or greater of its net worth.
- Clarification of the notification requirements for a Mortgagee that ceases operations to submit a change request in the Lender Electronic Assessment Portal (LEAP) for voluntary withdrawal of FHA approval.

SECTION II — ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

- Clarification of the definition of an Accessory Dwelling Unit (ADU) located on a single-family residential property. A one-unit property with an ADU will be treated as a one-unit property; however, an ADU located on any property with two or more units must be considered as an additional unit.
- Instructions for addressing situations where, during the application process, it is discovered that an existing debt or obligation secured by a Mortgage is not listed on the credit report and not considered by the Automated Underwriting System (AUS).
- Adding Form HUD-991 and other Required Condominium Documents to the Case Binder Stacking Order.

SECTION III — SERVICING AND LOSS MITIGATION

- Incorporation of guidance on enhancements to FHA's Claims Without Conveyance of Title (CWCOT) Procedures
- Incorporation of guidance on Loss Mitigation Options for Borrowers affected by the COVID-19 National Emergency.

SECTION IV — CLAIMS AND DISPOSITION

- Incorporation of guidance on use of FHA Catalyst for Supplemental, Loss Mitigation Home Retention, and Reconveyance claims submissions.

SECTION V — QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

- Clarification of the existing requirement for conducting field reviews of appraisals on early payment default (EPD) mortgages by requiring Mortgagees to perform field reviews on all (100 percent) of the EPDs underwritten by the Mortgagee.
- Incorporation of FHA's Defect Taxonomy Appendix 7.0 into the Title II Loan Review section of Mortgagee Monitoring.

THE EFFECTIVE DATES FOR THE VARIOUS SF HANDBOOK SECTIONS ARE AS FOLLOWS:

- SF Handbook changes that are incorporated to reflect a ML (as identified in Section II of the Transmittal) have an effective date as previously announced in the respective ML. Changes identified in Sections I.A, V.A, and V.E.4.b must be implemented immediately.
- Changes identified in Section II.A may be implemented immediately; however, implementation is mandatory for mortgages with case numbers assigned on or after February 16, 2021.
- All other changes may be implemented immediately; however, implementation is mandatory not later than February 16, 2021.

QUICK LINKS

- Review the November 18, 2020 SF Handbook Transmittal at:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg
- Access the SF Handbook online and/or portable document format (PDF) on the Housing Handbooks page on HUDClips at:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg
- View the redline version of the SF Handbook at:
https://www.hud.gov/sites/dfiles/SFH/documents/SFHandbook_4000_1_Update_9_Redline_11_18_20.pdf

FHA NEW CONSTRUCTION REQUIREMENTS - MORTGAGEE LETTER 2020-36

This guidance may be used immediately for existing cases and must be used for FHA case numbers assigned on or after January 4, 2021.

Changes to HUD's maximum financing policy for New Construction (in Handbook 4000.1, Sections II.A.8.i.i-iv) include:

- Eliminating Early Start Letter and Pre-Approval requirements;
- Consolidation of requirements regardless of loan-to-value (LTV);
- Including Form HUD-92544 Warranty of Completion as a requirement for all New Construction;
- Providing alternative inspections by a third party, who is a registered architect or structural engineer, in the absence of International Code Council (ICC) certified Residential Combination Inspector (RCI) or Combination Inspector (CI); and
- Updating when Form HUD-NPAMA-99-B, New Construction Subterranean Termite Service Record is required to align it with the four acceptable termite treatments applications reflected on the form HUD-NPMA-99-A.

Please review [FHA INFO #20-85](#), [#20-93](#) and [Mortgage Letter 2020-36](#) for complete detailed information.