



FHA Underwriting Guidelines

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FHA UNDERWRITING GUIDELINES

- [HUD Handbook 4000.1](#) – Single Family Housing Policy Handbook
- [FHA Single Family Housing Policy Handbook Glossary](#)

OVERLAYS4506-C

- A fully executed IRS Form 4506-C must be included in all loan files, except for FHA Non-Credit Qualifying Streamlines
- 1040 transcripts are required for the following income types:
 - Self-employed
 - Rental income documented on Schedule E
 - Employed by family
 - Fixed income types such as disability, social security, retirement, child support, alimony, etc., when the 1040s are obtained in lieu of alternative documentation such as award letters, 1099s, bank statements, etc.

APPRAISALS**APPRAISAL MANAGEMENT COMPANIES**

If Flagstar will underwrite the loan, appraisals for the following properties must be ordered through a Flagstar approved appraisal management company:

- Property is a doublewide manufactured home
- Borrower is an employee in the sales or production function of any mortgage originating branch or company

ASSETS**SWEAT EQUITY**

Not allowed

BUY-DOWNS

Ineligible

GIFT FUNDS/DPA

- Gift Funds – FHA transactions using gift funds the maximum DTI will follow AUS and allow gift funds from blood relatives, employers and close friends only.
- Down Payment Assistance (DPA) with credit scores below 680: The total debt-to-income (DTI) cannot exceed 43%.

CLOSING**CLOSING IN TRUST**

- For loans closing in a trust, a *Certificate of Trust (Lending)*, [Doc. #3954](#) or similar form is required. For properties located in California, the *California Trust Certificate*, [Doc. #3951](#) or similar form may be used.

ESCROW CREDITS

- If the refinance transaction pays off any servicer other than Flagstar, escrow credit for the borrower's existing escrow balance is not permitted.
- Flagstar does not provide an interest-free advance for the payment of closing costs or establishing escrows

CONDOMINIUMS

Flagstar does not participate in DELRAP

CREDIT REPORTS

Credit reports for Streamline refinances must be tri-merge credit reports

CREDIT SCORES

MINIMUM CREDIT SCORES

Minimum FHA Credit Scores	
Loan Purpose	Minimum Credit Score
Purchase 1-2 Unit/PUD/Condo/203k ¹	620
Purchase 3-4 Units (excludes 203k)	660
Rate and Term Refinance and Simple Refinance 1-2 Unit/PUD/Condo/203k ¹	620
Rate and Term Refinance and Simple Refinance 3-4 Units (excludes 203k)	660
Cash-Out Refinance 1-2 Unit/PUD/Condo ²	620
Cash-Out Refinance 3-4 Units ^{2,3}	660
Streamline Refinance 1-2 Unit/PUD/Condo	620
Streamline Refinance 3-4 Units	660

1. 203k available for approved DE Delegated Correspondents only
2. Cash-out refinances maximum DTI cannot exceed 50%
3. Cash-out refinances 3-4 Units maximum cash-in-hand \$300,000

DOWN PAYMENT ASSISTANCE

All community second and grant programs must be Flagstar-eligible. Refer to *Gift/Grant Programs, Doc. #5935* or *Community Seconds Programs, Doc. #5932*.

ESCROW HOLDBACKS - REPAIRS

- Closing documents must be prepared through Flagstar's Web-Based Closing Documents (WBCD), and all repair escrows for Flagstar-underwritten loans are held by Flagstar
- Two bids required for all repair escrows except HUD REO
 - Escrow holdback will be 1½ times the highest bid - Bids may not exceed \$6,666 for maximum escrow holdback of \$10,000. Note: Overlay does not apply to purchases of HUD REO properties where FHA permits \$10,000 in repairs and \$11,000 repair escrow or properties subject to disaster repairs where FHA limits the repair escrow to \$5,000.
- One draw only permitted upon completion of repairs

INSURANCE

If Flagstar underwrites the loan, HO-6 insurance coverage for condominiums and PUDs having any coverage maintained under a master policy must be at least 20% of the property's appraised value or replacement cost.

MANUALLY UNDERWRITTEN TRANSACTIONS

Manual Underwrites/Refer Responses/Non-Traditional, Alternative Credit or No Credit Score loans are currently suspended.

MAXIMUM NUMBER OF FLAGSTAR BANK LOANS

Flagstar will not approve and close or purchase loans for borrowers having more than five loans with Flagstar Bank or having an aggregate loan amount \geq \$4,000,000. The maximum number of loans and aggregate loan amount calculations include all of the following:

- Non-closed loans with Flagstar Bank
- Loans that are closed and currently serviced by Flagstar Bank
- Loans that were closed with Flagstar Bank but the servicing rights have been sold to another lender within the most recent 24 months

MCC CREDITS

Permitted for Correspondent lenders who close in their own names

POWER OF ATTORNEY

- Permitted for purchase or rate and term refinance only. Cash-out transactions may not close with any power of attorney other than a military durable power of attorney
- Powers of Attorney may not be e-signed

PRODUCTS AND PROGRAMS

INELIGIBLE PROGRAMS

- 203(K) and Limited 203(K)
- Title I Loans
- Home Equity Conversion Mortgages (Reverse Mortgages)
- Section 247 – Hawaiian Homelands
- Section 248 – Indian Reservations
- Section 184 – Indian Home Loan Guarantee Program
- Section 223(e) – Declining Neighborhoods
- FHA Negative Equity Refinance (ADP Codes 821, 822, 831, 832)
- Energy Efficient Mortgages

PROPERTY ELIGIBILITY

INELIGIBLE

- Properties with a PACE lien that will not be paid off prior to or at closing. Note: HERO loans are issued under the PACE financing program.
- Properties located in Puerto Rico

- Manufactured homes unless the loan is a Flagstar to Flagstar rate and term or Streamline refinance:
 - Manufactured homes are not permitted in the following states: Colorado, Illinois, Kentucky, Louisiana, Missouri, New York, Pennsylvania, Texas, or U.S. Virgin Islands
- 3-4 unit properties when one or more borrowers does not have credit scores
- Properties having both a stick-built and manufactured home located on the same parcel or property unless the manufactured home is unoccupied and utilities are not hooked up
- Investment properties under the HUD REO program

PROPERTY INSPECTIONS FOR PRESIDENTIALLY DECLARED DISASTER AREAS

If the Streamline refinance pays off any servicer other than Flagstar, an inspection meeting FHA's disaster inspection requirement is required when the loan is cleared to close within 120 days of the disaster inspection.

PURCHASES

PURCHASES OF SHORT SALES

- Copy of the fully executed short sale agreement is required
- Must be an arms-length transaction

RATIOS

- If the credit score is below 660 and the loan receives an AUS approve/accept the maximum DTI ratio cannot exceed 55%.

RECENTLY LISTED PROPERTIES

Cash-out, rate and term and Simple refinance:

- Property must be off the market at least one day prior to application

REFINANCE TRANSACTIONS

CASH-OUT REFINANCE

- Maximum cash-in-hand for 1-2 Unit – Follow AUS
- Maximum cash-in-hand for 3-4 Units - \$300,000
- Maximum DTI ratio for cash-out 1-4 Unit refinances cannot exceed 50%.

SECTION 8 HOUSING VOUCHERS

Due to system constraints, subsidies paid directly to the servicer are not permitted and may not be deducted from the borrower's proposed housing payment when calculating the ratios.

PROCESSES AND PROCEDURES

Processes and Procedures describe how to use Flagstar's systems and tools to achieve FHA, GNMA and Flagstar requirements.

4506-C

- If the 4506-C transcripts do not match the borrower's income and the borrower is a victim of taxpayer identification theft, the following conditions must be met in order to validate the borrower's income.

- Proof of identification theft as evidenced by one of the following:
 - Proof ID theft was reported to and received by the IRS (IRS form 14039) OR
 - Copy of notification from the IRS alerting the taxpayer to possible identification theft
- In addition to one of the documents above, all applicable documents below must be provided:
 - W2 or 1099 transcripts which match the W2 or 1099 income shown on the 1040s
 - 1099 mortgage interest must match the reported interest on Schedule A or Schedule E
 - 1099G unemployment must match the reported amount of unemployment
 - 1099 dividend and interest income must match the reported dividend and interest
 - Validation of prior tax year's income (income for current year must be in line with prior years)

APPRAISALS

The required method for ordering appraisals is based on each lender's approval type with Flagstar and FHA.

- If Flagstar must be the client on the appraisal, order the appraisal through Loantrac Appraisal Management
- For additional information and links to Flagstar-approved appraisal management companies, refer to *Appraisal Management Companies*, [Doc. #4903](#)

Description	Underwriting	Close in Own Name	Client on Appraisal
FHA Authorized Agent	Flagstar	Yes	Flagstar or Correspondent ^{1,3}
FHA Test Case Phase	Lender	Yes	Correspondent ³
FHA Direct Endorsement	Lender	Yes	Correspondent ³
FHA Sponsored Originator	Flagstar	No	Flagstar
TCP ² Dual/Sponsored Originator	Flagstar	Yes	Correspondent ³
TCP ² Dual/Sponsored Originator	Lender	Yes	Correspondent ³
FHA Dual/AA	Flagstar	Yes	Flagstar or Correspondent ¹
FHA Dual/AA	Lender	Yes	Correspondent ³
FHA SO AA	Flagstar	Yes	Correspondent ³

1. Flagstar must approve the correspondent for appraisal independence compliance. If the correspondent is not approved for appraisal independence compliance, the appraisal must be ordered through Loantrac Appraisal Management.
2. TCP refers to an FHA lender in its test case phase.
3. Appraiser must be Flagstar-eligible and must not be on Flagstar's ineligible or denied appraiser list. If the eligible appraiser search indicates the appraiser is inactive, expired or suspended, prior to ordering the appraisal, submit the appropriate documentation to Appraiser.Approval@flagstar.com.

PORTABILITY

- To transfer a Flagstar appraisal to another lender, refer to the Transfer Appraisal From Flagstar to Another Lender section of [Conventional Underwriting Guidelines](#)
- Appraisals already performed for a case number that was subsequently transferred to Flagstar must be emailed in .xml format to appraisal.review@flagstar.com by one of the following:
 - The original DE lender to whom the loan was initially submitted or

- The appraisal management company providing the appraisal or
- The appraiser

PROPERTY ADDRESSES

The property addresses on the appraisal, case number assignment, flood certification, mortgage, note and in Loantrac must be identical. However, abbreviation of Street, Road, etc. is acceptable, even if Street or Road is fully spelled in another document. This is the only acceptable variance.

- Use the standardized USPS address. Compare the USPS address to the legal description on the title commitment and use the address in the legal description if that differs from the USPS address
- Appraisers are required to state the USPS address as the property address on the appraisal. If the legal address differs from the USPS address, the appraiser must reference the legal address in a comment on the appraisal or an addendum to the appraisal

SECOND APPRAISAL POLICY – DEFICIENT APPRAISALS

Flagstar DE underwriters adhere to the following policies and processes when determining whether an appraisal contains material deficiencies:

- If the underwriter determines there are flaws and/or material deficiencies, he or she contacts the appraiser and requests necessary revisions, clarification, additional supporting documentation and/or missing data
- If the appraiser fails to provide the information or provides insufficient data and the appraisal still contains material deficiencies, the appraisal is forwarded to the Appraisal Review team for analysis
- A prior-to-close condition indicating the appraisal has been forwarded to Appraisal Review is added to the loan
- Upon receipt of the Appraisal Review team member's comments, the DE underwriter determines whether a new appraisal is warranted
 - If not warranted, the conditional commitment is issued based on the original appraisal
 - If the original appraisal contains significant flaws, the DE Underwriter requests a second Appraisal through the Appraisal Review team. Even if the originating lender has been approved for Appraiser Independence Compliance, second appraisals due to significant flaws may never be ordered by anyone other than the DE Underwriter

BORROWERS**BORROWER'S NAME**

- The borrower's name on the case number assignment must match the borrower's name in Loantrac and the note and mortgage
 - The following name discrepancies are the only acceptable variations:
 - James Everett Brown, James E. Brown, James Brown
 - William Smith Jr., William Smith, William R. Smith, William Ryan Smith, Jr., William Ryan Smith, William R. Smith, Jr.
 - The following name discrepancies must be resolved prior to the loan closing (this list is not all-inclusive and name discrepancies are reviewed on a case-by-case basis):
 - Name discrepancies due to marriage (Case number shows Mary Smith, but documentation in Loantrac and/or the note and mortgage shows Mary Jones)

- Hyphenated name discrepancies (Case number shows Bill Smith, but documentation in Loantrac and/or the note and mortgage shows Bill Smith-Jones)
- Middle name discrepancies (Case number shows Bill John Smith, but documentation in Loantrac and/or the note and mortgage shows Bill Robert Smith)
- First name discrepancies (Case number shows Bill Smith, but documentation in Loantrac and/or the note and mortgage shows William Smith)
- Last name prefix discrepancies (Case number shows Bill St. Pete, but documentation in Loantrac and/or the note and mortgage shows Bill Stpete)

CASE NUMBER ASSIGNMENT/TRANSFER

CASE NUMBER FUNCTIONS

- Case numbers for Sponsored Originators must be ordered through Flagstar Bank's Loantrac System.
- Case numbers for lenders in "eligible for pre-closing" status with FHA (test case phase) must be ordered by Flagstar. Submit a completed *Case Number Assignment Request*, [Doc. #9301](#) to fsgovlend@flagstar.com.
- If the case number cannot be ordered through Loantrac because the loan was submitted to underwriting prior to case number assignment or update of an existing Flagstar case number is required, complete *FHA Case Number Assignment Request*, [Doc. #9301](#) and submit to fsgovlend@flagstar.com.
- To obtain a copy of the Refinance Authorization screen for FHA to FHA refinance transactions, complete *FHA Refinance Credit Query/Authorization Request*, [Doc. #9353](#) and submit to fsgovlend@flagstar.com. Note: When requesting an FHA to FHA refinance case number through Loantrac, a Refinance Authorization is automatically provided.
- To obtain a case number transfer from Flagstar to another DE lender, complete *FHA Case Number Transfer Request*, [Doc. #9352](#) and submit to fsgovlend@flagstar.com.
- If a Flagstar case number requires cancellation, email fsgovlend@flagstar.com. The email request must contain the borrower's name, loan number, FHA case number and reason for case cancellation.
- Flagstar cannot perform case number functions for case numbers that are not already in Flagstar's name. The DE lender to whom the case number is assigned is responsible for all case number functions.

CASE NUMBER ASSIGNMENT – DATA ENTRY

When entering the case number assignment date in Loantrac, enter the "Case Received" date from the Case Query screen in FHA Connection.

CLOSING REQUIREMENTS

NOTARY POLICY

Refer to the Notary Policy stated in *Settlement/Closing Requirements*, [Doc. #4601](#)

ESCROW CREDITS

- For refinances of Flagstar serviced loans only, the borrower's existing escrow balance on the payoff may be used for one of the following purposes:
 - Reduce the payoff amount

- When calculating the maximum mortgage amount, escrow credits applied for this purpose must be deducted from the existing balance
- The payoff amount on the Closing Disclosure will be reduced by the amount of the existing escrow balance
- As a credit to the closing costs on the new loan
 - The credit must appear on the Closing Disclosure
 - The maximum mortgage is calculated using the existing principal balance on the payoff statement
 - If, instead of entering a credit on the Closing Disclosure, the payoff amount is reduced by the amount of the escrow credit, the borrower's authorization must be updated and the maximum loan amount must be recalculated. If the loan closes prior to adjustment, a principal reduction will be required
- As a credit toward the establishment of the new refinance loan's escrow account
 - The credit must appear on the Closing Disclosure
 - The maximum mortgage is calculated using the existing principal balance on the payoff statement
 - If, instead of entering a credit on the Closing Disclosure, the payoff amount is reduced by the amount of the escrow credit, the borrower's authorization must be updated and the maximum loan amount must be recalculated. If the loan closes prior to adjustment, a principal reduction will be required
- In all cases, borrowers wishing to use their existing escrow balance for one or more of the above purposes must complete *FHA Escrow Account Authorization, Doc. #9356*. Borrowers who do not complete the form prior to the loan being cleared to close are ineligible for escrow credits.

CLOSING - MISCELLANEOUS

- For FHA to FHA refinance transactions, the up-front mortgage insurance premium refund must be credited to the borrower on the Closing Disclosure
- All closing/funding conditions must be collected and provided in the closing package
- Any changes to loan amount, upfront MIP, cash-to-close, interest rate, points, PITI, etc. must be reviewed by underwriting prior to closing and disbursing loan
- Principal reductions are required when the total of lender and/or seller credits reflected on the Closing Disclosure exceeds the total of the actual closing costs, pre-paid expenses and discount points
- Principal reductions are required when the borrower is receiving more than \$500 cash at closing on a rate and term or streamline refinance loan. However, if the borrower has requested to apply the existing escrow balance to the closing costs and pre-paid expenses on the new loan and the existing escrow balance exceeds the amount required to pay closing costs and establish the new escrow account by more than \$500, the borrower may receive the excess funds in cash at closing. This is the only acceptable reason for a borrower to receive more than \$500 cash back at closing on a rate and term or streamline refinance.
- Closing documents must be signed and notarized on or before the closing date indicated on the closing documents, regardless of the state in which the property is located and/or whether it's an escrow state

CONFLICT OF INTEREST

The loan officer cannot receive compensation from any other person or entity involved in the mortgage transaction, (i.e. compensation as the real estate agent).

CREDIT REPORTS

AGE OF CREDIT REPORTS

- To achieve Flagstar's and FHA's minimum credit requirements, a new credit report may be re-pulled after a borrower has repaired derogatory credit, and Flagstar will honor the new credit score. The new credit report must be imported to Loantrac
- The following credit report discrepancies require a new credit report:
 - Social Security number is incorrect
 - Last name is incorrect
 - Middle initial is incorrect
 - Misspelled first names and/or missing or incorrect suffixes (Jr./Sr.) require a new credit report unless the name variation appears in the AKA section of the credit report

DE CUSTOMERS ONLY

- Credit report must contain Office of Foreign Assets Control (OFAC) screening
- If credit report indicates a potential OFAC match, the credit report must be e-mailed to Delegated.Underwriting@Flagstar.com for review by Flagstar Bank's Secrecy Act Compliance Department – The loan may not close without clearance from Flagstar's BSA Department (violation of this policy is a federal crime)

DISCLOSURES/FORMS

REQUIRED DISCLOSURES AND FORMS

- In addition to the other forms listed in *Government Forms and Disclosures, Doc. #9005, HUD/VA Addendum to Uniform Residential Loan Application, HUD Form 92900-a* is required for all FHA loans. Lender and sponsor information on the form is based on the originating lender's relationship with FHA and/or Flagstar Bank. Complete the fields described below in the following manner:
 - Sponsored Originators (TPOs), including loans underwritten by Flagstar for an Authorized Agent who is still in their test case phase and has only conditional FHA approval (pre-closing review status)
 - Page 1:
 - Box 13 – Enter Flagstar's FHA Lender ID – 7127400001
 - Box 14 – Leave Blank
 - Box 15 – Enter Flagstar's name and address: Flagstar Bank, 5151 Corporate Drive, Troy, MI 48098
 - Box 16 – Leave Blank
 - Box 17 – Enter Flagstar's phone number: (800) 945-7700
 - FHA Sponsored Originations Section – Enter the loan originating lender's company name, company Tax ID and company NMLS ID
 - A Flagstar officer must sign page one at the time the loan is insured – No originator signature is required – Must not be signed prior to the borrower signing page 2

- Page 2:
 - No Lender/sponsor info
 - Form must be signed by borrower(s) at initial application
- Page 3:
 - Form is signed by Flagstar's underwriter
- Page 4:
 - Mortgagee – Flagstar Bank
 - Title of Lender's Officer and Signature – A Flagstar officer must sign at the time of insuring – No originator signature is required
 - Form must be signed by borrower(s) at closing
- Loans Underwritten by Flagstar as Authorized Agent for an FHA-approved DE Lender who has completed their test cases and is unconditionally approved by FHA
 - Page 1:
 - Box 13 – Enter originating lender's FHA lender ID
 - Box 14 – Enter Flagstar's FHA Lender ID - 7127400001
 - Box 15 – Enter originating lender's name and address
 - Box 16 – Enter Flagstar's name and address: Flagstar Bank, 5151 Corporate Drive, Troy, MI 48098
 - Box 17 – Enter originating lender's phone number
 - FHA Sponsored Originations – Leave Blank
 - An officer (not the loan officer or originator) of the originating lender's company must sign – No originator signature is required - Must not be signed prior to the borrower signing page 2
 - Page 2:
 - No Lender/sponsor info
 - Form must be signed by borrower(s) at initial application
 - Page 3:
 - No Lender/Sponsor info
 - Form is signed by Flagstar's underwriter
 - Page 4:
 - Mortgagee – Originating lender's name
 - An officer (not the loan officer or originator) of the originating lender's company must sign – No originator signature is required
 - Form must be signed by borrower(s) at closing
- Loans Underwritten by Flagstar-approved DE Delegated Correspondents
 - Page 1:
 - Box 13 – Enter DE Delegated correspondent's FHA lender ID
 - Box 14 – Leave blank
 - Box 15 – Enter DE Delegated correspondent's name and address
 - Box 16 – Leave Blank
 - Box 17 – Enter DE Delegated correspondent's phone number

- FHA Sponsored Originations – Leave Blank
- An officer (not the loan officer or originator) of the DE Delegated correspondent's company must sign – No originator signature is required -- Must not be signed prior to the borrower signing page 2
- Page 2:
 - No Lender/sponsor info
 - Form must be signed by borrower(s) at initial application
- Page 3:
 - Form is signed by DE Delegated correspondent's underwriter
- Page 4:
 - Mortgagee – DE Delegated correspondent's name
 - An officer (not the loan officer or originator) of the DE Delegated correspondent's company must sign – No originator signature is required
 - Form must be signed by borrower(s) at closing

For additional FHA document and disclosure requirements, refer to *Government Forms and Disclosures*, [Doc. #9005](#).

ELECTRONIC SIGNATURES

Electronic signatures are permitted for all FHA loan documents except the following:

- Powers of attorney
- Form SSA-89
- Note

ESCROW STATES

- Arizona
- California
- Colorado
- Hawaii
- Idaho
- Montana
- Nevada
- New Mexico
- Oregon
- Utah
- Washington
- Wyoming

ESCROWS

- Escrow waivers not allowed
- Escrows are required for all of the following:
 - Real estate taxes

- Monthly mortgage insurance premiums
- Hazard insurance premiums, including flood insurance, wind insurance, etc.
- Special assessments
- Ground rents
- Unless the loan has one of the following characteristics, property tax escrows are calculated using the taxes stated on the title commitment, regardless of the rate used to calculate the borrower's debt-to-income *ratios*:
 - When calculating the real estate tax payment for existing (not new construction) properties, the following documentation may be used:
 - Taxes listed on the title commitment or property tax bill/cert or
 - Evidence from the local assessor's office of the current tax rate
 - For properties being purchased from a seller who paid non-homestead taxes, the title commitment will indicate the non-homestead tax rate. Homestead tax rates may be used to calculate the borrower's ratios, provided evidence of the homestead tax rate is obtained from the local tax assessor's office. Lenders must collect escrows based on the amount shown on the title commitment.
 - Generally, property tax escrows for all new construction properties must be calculated based on the fully assessed property value. Obtain actual tax amounts from the local tax assessor's office. If the new construction property taxes charged by the municipality will not be based on the fully improved property within 12 months of closing, escrows may be based on one of the following. Note: Regardless of assessment dates, ratios and reserves must be calculated based on the fully assessed property value.
 - Lot only; or
 - A partial assessment; or
 - Actual or estimated amount based on fully assessed value
 - The Closing Department will require the borrower(s) to confirm that once the property is fully assessed, they are aware of the potential escrow shortage
 - For purchases of new and existing properties in California only, property taxes may be calculated using 1.25% of the purchase price or the actual tax rate

ESCROW HOLDBACKS - REPAIRS

In addition to FHA's repair escrow requirements and Flagstar's [overlays](#) above, the following documents and clarifications apply:

- Fully executed *Escrow Holdback Agreement*, [Doc. #3655](#) required in closing package
- For additional repair escrow information, refer to *Escrow Holdback Procedures*, [Doc. #4634](#)
- For new construction properties, items such as pools, decks, sod, etc. may remain incomplete due to weather-related situations. Escrow holdback will be amount indicated on building agreement, contract and/or vendor agreement.

For purchases of bank-owned properties, approval of repair escrow is granted on a case-by-case basis for completion of exterior repairs that cannot be completed due to inclement weather.

HIGHER PRICED MORTGAGE LOANS (HPML)

Loans having an APR that is $\geq 1.5\%$ above the APOR on the date the loan locked are classified as an HPML. All HPMLs must meet the following requirements:

- Pre-payment penalties are not permitted
- The interest rate cannot adjust within the first seven years of the loan – FHA ARMs classified as HPMLs are ineligible
- Escrows must be collected for the life of the loan
- Streamline refinance transactions are eligible, provided they are credit qualified
- For FHA transactions that are considered Safe Harbor QM that are HPML for purposes of Section 35, please reference *Higher Priced Mortgage Loans (HPML)*, [Doc. #4813](#). Loans that have a QM status of Rebuttable Presumption are required to have a Residual Income Worksheet, this form is not applicable to delegated loans.

INDUSTRY LINKS/FLAGSTAR LINKS/CONTACTS

- [FHA Mortgage Limits Search Engine](#)
- [FHA Approved Condos Search Engine](#)
- [HUD Training Archives](#)
- [HUD Training and Events Page](#)
- [HUD's Lender Page](#)
- [FHA Connection](#)
- [Government Services Administration \(GSA\) Excluded Parties Search Engine](#)
- [Limited Denials of Participation \(LDP\) Excluded Parties Search Engine](#)
- [Flagstar Bank Wholesale Website](#)
- Flagstar Bank Government Underwriting Help Desk
 - E-Mail: GovernmentUW@Flagstar.com
 - Phone: 866-945-9872, Option 1 for Underwriting, then Option 2 for Government Underwriting
- HUD's Listserv email distribution that announces FHA changes and available training:
 - Email answers@HUD.gov

INSURANCE

HAZARD INSURANCE

Hazard Insurance Requirements, [Doc. #4602](#)

FLOOD INSURANCE

- *Flood Insurance - Broker & Non-Delegated Correspondent*, [Doc. #4603](#)
- *Eligible Flood Provider Companies*, - FEMA Flood Insurance Company List
- Flood insurance policy must be a NFIP policy and must cover all improvements, including detached structures. Flood insurance provided by private providers is not permitted
- If the subject property is a condominium-unit, the NFIP policy must be obtained by the homeowner's association. Borrower purchased flood insurance is not permitted unless the property is a site condominium. Loans must be denied if the HOA does not maintain adequate flood insurance, regardless of FHA condominium approval status

CONDOMINIUM FIDELITY/LIABILITY INSURANCE

- *Hazard Insurance Requirements*, [Doc. #4602](#)

- Each project must have \$1,000,000 business liability insurance coverage with the HOA named as the insured
- Projects having > 20 units must show evidence of Fidelity (employee dishonesty) coverage ≥ three months HOA income with the HOA named as the insured
- Site Condominiums – Liability insurance is not required
- Must be provided prior-to-close

HO-6 POLICY

For coverage requirements, refer to *Hazard Insurance Requirements*, [Doc. #4602](#)

LOAN TERMS

FIXED RATE MORTGAGES

10, 15, 20, 25 and 30-year fixed rate mortgages

ARMS

3/1 and 5/1 CMT adjustable-rate mortgages

MAXIMUM LOAN AMOUNT

Maximum Loan calculations are published in the 9000 series of our Sellers Guide:

- *FHA Maximum Mortgage Worksheet - Purchase*, [Doc. #9328](#)
- *FHA Maximum Mortgage Worksheet - Rate & Term Refinance*, [Doc. #9342](#)
- *FHA Maximum Mortgage Worksheet - Simple Refinance*, [Doc. #9346](#)
- *FHA Maximum Mortgage Worksheet - Cash-Out Refinance*, [Doc. #9345](#)
- *FHA Maximum Mortgage Worksheet - Streamline Refinance*, [Doc. #9347](#)

NET TANGIBLE BENEFIT

NET TANGIBLE BENEFIT CALCULATION WORKSHEETS

To calculate the borrower's net tangible benefit for Streamline refinances, use *FHA Refinance Net Tangible Benefit Worksheet*, [Doc. #9348](#).

STATE-REQUIRED NET TANGIBLE BENEFIT FORMS

FHA Refinance Net Tangible Benefit Worksheet, [Doc. #9348](#) may not be used in lieu of any state-required net tangible benefit forms. When a state requires a net tangible benefit form, the appropriate form must be completed.

POWER OF ATTORNEY

- All signatures on the power of attorney must be notarized, and the power of attorney must be reviewed by a Flagstar underwriter. All signatures must match the signatures in the file
- Unless the POA is a military Durable POA, the POA must be specific to Flagstar Bank's loan and indicate the property address
- POA is not allowed for single borrower transactions unless Flagstar Bank has borrower experience and the underwriter can compare signatures from previous transaction(s)

REFINANCE TRANSACTIONS

STREAMLINE REFINANCES AND CASH-OUT REFINANCE LOANS

- Refinances must meet all FHA 4000.1 occupancy requirements; and
- Must meet the following seasoning requirements when the loan being paid off is a government loan (FHA, VA or USDA); and
- The borrower made at least six consecutive monthly payments on the loan being refinanced, beginning with the date the payment was made for the first payment due date; and
- The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the initial loan.

SHORT PAYOFF ON A RATE AND TERM REFINANCE

A specific written principal reduction (short payoff) agreement between the existing lender and borrower is required. The agreement must reference the borrower and the loan being paid off.

SOCIAL SECURITY AND DISABILITY BENEFITS

When the Notice of Award or equivalent document does not have a defined expiration, the Mortgagee must not inquire or request additional documentation for continuance of the nature of the disability or the medical conditions. If any disability income from (Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider) is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. Refer to HUD Single Family Handbook 4000.1 for complete details.

TITLE

The title commitment must be dated within 90 days of closing. If greater than 90 days, a gap letter will be required, which will allow the title to be extended an additional 90 days

ENERGY LOAN TAX ASSESSMENT PROGRAM (ELTAP) LIENS

Not permitted

MINERAL RIGHTS – EXCEPTIONS TO TITLE

Exceptions to title for Mineral Rights are acceptable as long as the title company states in writing that there are no active mineral rights on the property at the time of loan closing

DEED RESTRICTIONS

- In addition to any deed restriction that does not meet FHA's requirements, deed restrictions with the following characteristics are ineligible:
 - Single-family use restrictions when the property is a two- to four-family property
 - Deed restriction creates or provides for a lien that would be prior to the lien of the home mortgage or provides for the elimination of the home mortgage lien
- The terms and provisions of the restrictive agreements or restrictive covenants must be commonly acceptable to the private institutional mortgage investors in the area where the mortgaged premises are located
- Title company must provide an endorsement to the title policy that affirmatively insures that no violation of any such restrictive agreement or restrictive covenant exists and that any future violation shall not result in forfeiture or reversion of title is required

UNEXPIRED RIGHTS OF REDEMPTION

- All States Except Alabama:
 - Unless the property is located in the State of Alabama, Flagstar will not approve and/or purchase any loan having an unexpired right of redemption unless the purchase agreement, title and appraisal all show the same seller who is the original mortgagor
 - Title may show *lis pendens* notices from the bank or mortgagee
 - Purchase contract may indicate a short sale
- Alabama Only:
 - Purchase agreement, title and appraisal will be in the name of the lender and not the original mortgagor.
 - Title commitment will show one or both of the following acceptable recorded deeds:
 - Foreclosure from John Doe (original mortgagor) to Anybank (foreclosing lender) followed by the date on the deed and the recording date
 - When the foreclosing lender deeds the property to HUD, Fannie Mae, Freddie Mac, VA or GNMA, there will be a special warranty deed from Anybank (foreclosing lender) to one of the GSEs listed above followed by the date on the deed and the recording date
- If the above referenced deeds are dated within the most recent 12 months, the title commitment must contain a specific exception for the unexpired right of redemption and affirmatively insure, without qualification, the mortgagee (Flagstar Bank) against all losses arising out of the exercise of any outstanding right of redemption

UNDERWRITING TURN TIMES

Current underwriting turn times are posted on Flagstar's website.