HUD Section 184 Product Summary and Underwriting Guide

Delegated Clients: Lender and Underwriters must be Fully Approved by HUD to offer this product

Newrez overlays are identified with yellow highlighting

HUD 184 FIXED RATE ELIGIBILITY MATRIX					
Units	**Transaction Type**	**Credit Score**	**LTV**	**CLTV**	**DTI**
Manual Underwrite					
1-4	Purchase[1,2,4] Rate & Term Refi	620	97.75%	100%[6]	41%[5]
	Cash Out Refinance[3]		85%		

[1] Maximum 98.75% LTV/CLTV if the value of the subject property is ≤ $50,000

[2] Maximum 75% LTV when the transaction involves a non-occupying co-borrower

- If a parent is selling to a child, the parent cannot be the co-applicant with the child, unless the LTV is ≤ 75%
- If the LTV exceeds 75%, a mortgage with non-occupying applicant(s) is limited to a one-unit property

[3] Non-Occupant Co-Borrowers not permitted for Cash Out Refinances

[4] Maximum 85% LTV if non-arm's length transaction/interested party transaction

[5] Maximum 43% DTI permitted with two of the five Compensating Factors listed in Section 10

[6] Maximum CLTV 100% permitted when utilizing acceptable secondary financing. See Underwriting Guide Section 3A Subordinate Secondary Financing

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1. Loan terms	Fixed Rate: 15 and 30 years	
2. Product Codes	2573	HUD Section 184 15 Year Fixed
	2574	HUD Section 184 30 Year Fixed
3. Eligible Programs	HUD 184 Fixed Rate	
4. Temporary Buydown	• Purchase Transactions only • Maximum 41% DTI Eligible Buydown Plans • **1-0**: payment will be calculated at 1.00% below the Note rate for payments 1-12 • **1-1**: payment will be calculated at 1.00% below the Note rate for the first two years • **2-1**: payment will be calculated at 2.00% below the Note rate for payments 1-12 and 1.00% below the Note rate for months 13-24	

5. Eligible Borrowers	• American Indians
	• Native Alaskans
	• Native Hawaiians
	
	• Borrower must be one of the following:
	  ○ Member of a federally recognized tribe,
	  ○ One of the following 5 state tribes
	    ▪ Coharie Tribe (North Carolina)
	    ▪ Haliwa-Saponi Tribe (North Carolina)
	    ▪ Lumbee Tribe (North Carolina)
	    ▪ Waccamaw Siouan Tribe (North Carolina)
	    ▪ MOWA band of Choctaw (Alabama)
	• Section 184 Participating Tribe List.
	• Determine tribe eligibility via tribal directory on U.S. Department of the Interior Indian Affairs.	

	• Proof of membership or enrollment in a federally recognized tribe or one of the five approved state tribes will be determined through possession of a tribally issued enrollment card or through possession of a letter from the tribal enrollment office stating that the applicant is a member of the tribe.
	• Non-occupant Co-Borrower not required to be an enrolled member of the tribe.
	
	Borrower residency status
	• An eligible Borrower who is an Indian must be
	  ○ A U.S citizen
	  ○ A lawful permanent resident alien; or
	  ○ A non-permanent resident alien

6. Eligible States	Based on the States and Areas that the Client is approved to lend in.
7. HUD 184 Ineligible Sates	• District of Columbia • Delaware • Georgia • Hawaii • Kentucky • Maryland • New Hampshire • New Jersey • Ohio • Pennsylvania • Vermont • West Virginia HUD 184 State Approvals

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8. Maximum Loan Amount	• For national conforming limits, 184 click here • Refinance transactions involving a refinance of an existing Section 184-guaranteed mortgage with a new Section 184-guaranteed mortgage are exempt from these new loan limits so long as the new mortgage does not exceed the current principal balance of the existing Section 184 mortgage.
9. Maximum Cash to Borrower	• A Rate & Term Refinance is limited to a maximum of $500 cash back to the Borrower at closing for costs paid in advance during loan processing. • A Cash-Out Refinance that includes a cash distribution directly to the borrower is limited to $25,000.
10. Underwriting Decision	Manual underwrite
11. Compensating Factors	• **Compensating Factors** o A DTI of up to 43% may be acceptable if at least 2 out of the 5 compensating factors listed below are presented. o Compensating factors include, but are not limited to: ▪ Minimal housing increase (no more than 15%) ▪ Strong credit history (≥700) ▪ The borrower has additional income that has not been included in qualifying that will, if used as qualifying income, reduce the DTI to below 41% ▪ The borrower has substantial cash reserves after closing (≥6 months) ▪ ≤75% LTV
12. Qualifying Rate	Note rate, including temporary buydowns
13. Types of Financing	• Purchase • Refinance (Rate Term and Cash-Out)
14. Subordinate Financing	Permitted
15. Occupancy	Primary residence

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16. Eligible Property Types	• 1-4 units • Condos 　○ Must be FHA approved 　○ Provide a copy of the Condominium Project Approval from FHA Connection for the file. • PUDs • Manufactured housing
17. Ineligible Property Types	• Condo hotels • Co-ops • Non-warrantable condos • Leasehold (Tribal lands)
18. State Requirement	Minimum Loan Amount $10,000 in the state of Michigan
19. Co-Borrower	• Cannot be the seller, builder, real estate agent, etc., unless the co-borrower is a family member • Income, assets, and debts from all borrowers are used in qualifying
20. Non-Occupant Co-Borrower	• Must be either a U.S. citizen or have a primary residence in the U.S. • Max 75% LTV if 　○ Not a family member 　○ Parent is seller and non-occupant co-borrower • If a family member with an LTV greater than 75% the property must be single family • Borrower with an existing HUD 184 is permitted to be a non-occupant co-borrower on an additional HUD 184. • Non-Occupant Co-Borrowers not permitted for Cash-Out Refinances
21. Credit	• Nontraditional credit is permitted

22. Housing Payment History	Recent 24-month history of mortgage, rental, or other residency. Verification sources can include: • Credit report • Mortgage payment information from the financial institution • Verification of rent from landlord and/or other alternative documents to support residency • All documentation must cover a 24-month payment history and identify the address and amount of monthly payment.
23. Borrower Contribution	• 2.25% of the lesser of the appraised value or the sales price of the property • 1.25% if the value of the property is ≤ $50,000
24. Down Payment Assistance	• Tribes/TDHE using their own funds can provide assistance to whomever they choose. In this case the tribe/TDHE (donor) should provide a written verification that the source of assistance is from their own funds and not provided from NAHASDA, HOME funds, or any other HUD funds unless eligibility is established. • If the tribe/TDHE is using NAHASDA funds, it must comply with all applicable NAHASDA regulations. Specifically, the assistance is generally limited to families with income at or below 80% of median income in the area.
25. Seller Contributions	6% of the purchase price
26. Reserves	2-4 Unit Property-6 months mortgage payments (PITI) after closing

27. IRS Form 4506-C	• At Closing (all loans)
	  ○ 4506-C for each borrower whose income is used to qualify (regardless of income type) must be signed at closing
	  ○ 4506-C for the business tax return transcript(s) must be signed at closing when the business returns are used for qualification

28. Tax Transcripts	Salaries, Wages, and Other Forms of Income

	• IRS tax transcripts for the most recent 2 year periods, for all loan applications prior to underwriting
29. Appraisals	Section 184 program follows FHA appraisal guidance in HUD Handbook 4150.2 Valuation Analysis for Single Family One- to Four- Unit Dwellings Appendix C – *Appraisal of Single Family Homes on Native American Lands* and Appendix D – *Valuation Protocol*.

30. Power of Attorney	• Permitted
	  ○ The initial loan application may not be executed by using power of attorney
	  ○ See Underwriting Guide for additional details

31. Escrow Waivers	Not permitted
32. Upfront Fee	All loans are subject to the Section 184 Upfront Loan Guarantee, which is a one-time upfront fee of 1.0% which can be paid at closing or financed in the loan
33. Mortgage Insurance	Not required
34. Resources	• Tribal Leaders Handbook on Homeownership • Homeownership Data from the Center for Indian Country Development Reservation Profiles Database • Alaska Rural Homeownership Resource Guide • Lenders Section 184 Resources | HUD.gov / U.S. Department of Housing and Urban Development (HUD)
35.Ineligible Programs	• Section 247 Hawaiian Homelands • Streamline Refinances • HUD Section 184 A

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1A Overview

This guide identified HUD Section 184 program eligibility and loan eligibility requirements.

This program is based on a government-to-government relationship between federally recognized tribes and the U.S. Government.

American Indians and Alaska Natives may access this loan guarantee program as a benefit of being current enrolled members of federally recognized tribes, bands, communities, villages, Pueblos, and Rancherias.

This Underwriting chapter sets out underwriting standards that apply to all HUD Section 184 loans which are only eligible for manual underwriting.

1A.1 Excluded Parties

Newrez's Exclusionary List must be checked to confirm eligibility for the borrower and all participants involved in the transaction and must be evidenced in the loan file.

The borrower and other parties to the transaction may not be on the Newrez Exclusionary List.

Other parties to the transaction include but are not limited to:

- Seller (except when selling the primary residence)
- Listing and selling real estate agent
- Builder
- Developer
- Loan originator
- Loan processor
- Underwriter
- Appraiser
- Closing agent

- Title company
- Notaries
- Insurance agents
- Trustees on deed
- All other licensed professionals contracted to provide certifications for the transaction (wood infestation and mechanical certifications such as termite companies, heating, plumbing, roofing, and electrical companies)

See the Client Guide Chapter 1C, Representations, Warranties and Covenants, C102.AT Exclusionary List guidance.

1A.2 Loan Application

The loan application must be complete, including a full two-year history of employment and residency and all personal information for each borrower (social security number, date of birth, address, and education). If a borrower's employment history includes unemployment, the application must reflect at least two years of employment, therefore covering a longer period of time. All declaration questions must be marked indicating the method of taking the application: face-to-face, by telephone, or by mail.

The final application for closing must adhere to the requirements above, including the borrower's complete and accurate financial information relied upon by the underwriter, and be signed and dated by all borrowers. All debt incurred during the application process and through loan closing must be disclosed on the final application. See **Chapter** **2H FHA Liabilities and Debt Ratios** for more information.

All transactions are reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims, and the overall financial picture of the borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the loan file.

A loan application may not be retaken for a borrower where misrepresentations are identified, such as under reported income to the IRS, fraudulent W-2s or paystubs. Due diligence must be exercised when determining whether to allow an application to proceed due to a change of borrower and occupancy representation.

All documents in the origination file relevant to underwriting are reviewed for signs of alteration or fabrication.

Any available technology may be used to produce copies of the documents in the loan file, such as a photocopier, fax machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and provided to the Client/Newrez via email or other electronic means.

1A.3 Identity Verification

The identity must be confirmed for each borrower whose credit is used for loan qualification prior to extension of credit.

The closing agent, notary public or signing attorney, as appropriate, must provide evidence that the identification document has been confirmed for each borrower. Acceptable forms of identification include:

- Valid state driver's license with photo;
- Military photo ID;
- Permanent Resident Card with photo;
- Valid state non-driver's license with photo;
- Military dependents photo ID;
- Department of Public Welfare photo ID; and
- US passport with photo.

1A.4 Social Security Number Validation

Evidence of a valid social security number is required for all borrowers. Any social security number discrepancies that are identified must be resolved. If social security number inconsistencies cannot be resolved, the social security number must be validated with the Social Security Administration (SSA) using one (1) of the following options:

- Authorization for Social Security Administration to Release Social Security Number Verification (Form SSA-89); or
- Electronic Consent Based Social Security Number Verification (eCBSV) Service.

If using a third-party vendor, the vendor must go directly to the SSA to validate the social security number using one (1) of the above options.

If the social security number cannot be validated with the SSA, the loan is not eligible.

1A.5 Documentation Age

Topic	Requirements
Age of Credit Documents	• All credit, income, and valuation verification may not be older than 60 days at underwriting. An underwriter must use the most recent information for approval decision. • All documents may not be older than 120 days as of the Note date.
Age of Appraisal	The effective date of the appraisal report must be less than 120 days old at closing.
New Appraisal	A new appraisal is required when the effective date is more than 120 days old on the Note date.
Effective Date of Title Policy	The effective date of the title insurance policy must be no earlier than the date on which the security instrument was recorded, and final title insurance policy

	must be dated within 45 days of loan closing.

1A.6 Occupancy Types

The feasibility of a borrower occupying the subject property must be considered when the borrower indicates the property will be their primary residence. On refinance transactions, compare the current address reported on the loan application to the addresses listed on the credit report and other documentation that may be in the loan file (e.g., paystubs, W-2s, bank statements, tax returns, etc.). A full explanation is required for any red flags or inconsistencies noted in the last 12 months.

1A.6(a)Primary Residence

A primary residence is a property that at least one borrower occupies as their primary residence and typically occupies or will occupy for the majority of the year. The property location is generally convenient to the borrower's principal place of employment.

At least one (1) borrower must occupy the property within 60 days of closing and continue to occupy the subject property for at least one(1) year.

Property address of record can be documented by, but is not limited to:

- Individual income tax returns;
- Driver's license; or
- Occupational licensing.

For 1-, 2-, 3-, or 4-unit owner-occupied refinances, the loan must meet **all** of the following requirements:

- The credit documentation must show the subject address as the borrower's mailing address.
- The hazard insurance policy must show that the mailing address and subject property address are the same. If the borrower uses a P.O. Box, occupancy must be supported through other documents (i.e. appraisal, tax certification, asset or income documentation)
- The appraisal must indicate that the borrower occupies the property.

1A.7 Property Flipping

If the owner of the property is attempting to sell a home they acquired within the previous 90 days from the date of the contract of sale to the applicant that property will not be eligible for Section 184 loan financing.

An exception to this rule may be granted under the following circumstances:

- All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction. The following should be reviewed to assess and determine there is no appropriate collusion or agreement between parties:
  - the seller holds title to the property;
  - LLC's, corporations, or trusts that are serving as sellers were established and are operated in accordance with applicable state and Federal law;
  - No pattern of previous flipping activity exists for the subject property, as evidenced by multiple title transfers within a 12-month time frame;
  - The property was marketed openly and fairly.
- In cases when the sales price of the property is 20% or more over and above the seller's acquisition cost, an exception is possible only if:
  - evidence is provided to verify and document the seller has completed sufficient legitimate renovation, repair and rehabilitation work on the subject property to substantiate the increase in value; or
  - if no work was performed, the appraiser provides appropriate explanation to support increase in property value since the prior title transfer; and
  - orders a property inspection; and
  - provides the inspection report to the purchaser before closing. Note: the inspector must have no interest in the property or relationship with the seller, and must not receive compensation for the inspection for any party other than the lender.

1A.8 Borrower Eligibility

The is no maximum age for a borrower. The borrower must have reached the minimum age at which the Note can be legally enforced in the jurisdiction in which the property is located.

Any person signing an application for a loan is a borrower.

- All borrowers must sign the Note;
- All borrowers must have a social security number;
  - Any social security number discrepancies that are identified must be resolved. If social security number inconsistencies cannot be resolved, the social security number must be validated with the Social Security Administration (SSA) using one of the following methods:
    - Form SSA-89 (*Authorization for Social Security Administration to Release Social Security Number Verification*); or
    - Electronic Consent Based Social Security Number Verification (eCBSV) Service.
  - If the social security number cannot be validated with the SSA, the loan is not eligible.
- An Individual Tax Identification Number (ITIN) is not permitted; and
- Each borrower must be an individual;
  - Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible. Living trusts may be eligible. Refer to the Loans to Trusts section in this chapter. In addition, if title is currently held in the name of a limited liability company (LLC) or land trust the loan may be eligible provided the borrower is a member of the LLC or land trust and title is transferred to the borrower's name at closing.

Borrower must be one of the following:

- Member of a federally recognized tribe,
- One of the following 5 state tribes
  - Coharie Tribe (North Carolina)
  - Haliwa-Saponi Tribe (North Carolina)
  - Lumbee Tribe (North Carolina)

- Waccamaw Siouan Tribe (North Carolina)
- MOWA band of Choctaw (Alabama)

- Determine tribe eligibility via tribal directory on U.S. Department of the Interior Indian Affairs.
- Proof of membership/enrollment in a federally recognized tribe (or one of the following 5 approved state tribes) through a tribally issued unexpired enrollment card or a letter from the tribal enrollment office stating that the borrower is a member of the tribe
- Eligible tribal members are not limited to purchasing a home in a place where their tribe is authorized to provide housing.
  - For example, if an Oklahoma tribal member wants to purchase a home in Alaska that is allowed.

U.S. citizenship is not required for mortgage eligibility; however, all borrowers must have lawful residency in the U.S. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

1A.8(a)U.S. Citizen

A citizen of the United States or of a United States Possession or Territory are eligible borrowers.

1A.8(b) Permanent Resident Alien

A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. Document legal residency with one (1) of the following:

- A copy of a valid, current, unexpired Permanent Resident card *INS Form I-551*, Green Card/*Alien Registration Receipt*;
- A copy of *INS Form I-551*, *Conditional Alien Registration Receipt*, with an unexpired date on the front. *I-551 Forms* due to expire within three (3) months must be accompanied with a copy of United States Citizenship and Immigration Services (USCIS) *Form I-751* (Petition to Remove Conditions on Residence) or USCIS *Form I-829* (Petition to Remove Conditions) filing receipt; or
- Passport with an unexpired stamp reading “processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until___. Employment authorized.” This evidences that the holder has been approved for, but not issued, a Permanent Resident card.

See United States Citizenship and Immigration Services (USCIS) for more information.

1A.8(c) Non-Permanent Resident Alien

A non-permanent resident alien is a non-U.S. citizen who lawfully enters the U.S. for specific time-periods under the terms of a Visa. All non-permanent resident aliens must provide acceptable evidence documenting that they are legally present and eligible to work in the U.S.

Expiring Visas: If the authorization for temporary residency status will expire within one (1) year prior to the Note date and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from USCIS.

Borrower must be:

- Purchasing subject property as principal residence; and
- Have a valid Social Security Number; and
- Be eligible to work in the U.S. as evidenced by an Employment Authorization Document (EAD) issued by the Bureau of Citizenship and Immigration Services (BCIS).

If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exists, may assume continuation will be granted. If there are no prior renewals, using the information from the BCIS must be used to determine the likelihood of renewal.

The borrower may be eligible with verification of an eligible Visa U.S. Visas as of 04.12.2024

1A.8 (d) Borrowers without an Acceptable Visa or EAD

If the borrower does not have an acceptable Visa from the list above, one (1) of the following may be used to establish lawful residency:

- A valid passport, letter from employer/sponsor and an *Arrival/Departure Record* I-94 proving work authorization.

- Refugee or asylee status granted by the USCIS (EAD categories A03, A05, and C08) and Temporary Protected Status (EAD category A12). These statuses are automatically eligible to work in the U.S.
  - USCIS *Notice of Action* (Form I-797) indicating approval of a USCIS *Application for Asylum and for Withholding of Removal* (Form I-589), substantiating the refugee or asylee status may be used as evidence of lawful residency.
- A valid employment authorization document (EAD) (Fannie Mae only).

1A.8(d)(i) Ineligible Non-Permanent Resident Alien Statuses

The following is an U.S. immigration policy and not a visa type. A person with any of the following statuses is not eligible:

- Deferred Action for Childhood Arrivals (DACA) EAD (C33);
- Deferred Enforced Departure (EAD category C18);
- Diplomatic Immunity;
- Humanitarian Parole (EAD category A04 and C11);
- Withholding of Removal or Withholding of Deportation (EAD Category A10); and
- A student, a spouse of student and a dependent child of a student (EAD Category C03, C04, C05, and C06).

Transitional Status (change of status/categorization) (EAD category C09 and C09P) is ineligible unless the loan file contains acceptable documentation to evidence the borrower's residency in the U.S. is likely to continue.

Verification that the borrower does not have diplomatic immunity can be determined by reviewing the Visa, passport, or the U.S. Department of State page.

1A.9 Non-Occupant Borrower, Guarantor, and Co-Signer

1A.9 (a) Non-Occupant Borrower

Non-occupant borrowers are credit applicants on a primary residence transaction who:

- Related by blood (e.g. parent-child, siblings, aunts-uncles/nieces-nephews) or
- Note: If a parent is seller to a child the parent cannot be the co-applicant with the child unless the LTV ≤ 75%.
- Unrelated individuals who can document evidence of a family type, longstanding and substantial relationship not arising out of the loan transaction.
- A non-occupant co-borrower may only be on one other Section 184 loan.
- Do not occupy the subject property;
- May or may not have an ownership interest in the subject property as indicated on the title;
- Sign the Mortgage or Deed of Trust Note;
- Have joint liability for the Note with the occupant borrower; and
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

1A.9 (b) Guarantor or Co-Signer

Guarantors or co-signers are credit applicants who:

- Do not have ownership interest in the property as indicated on the title;
- Sign the Mortgage or Deed of Trust;
- Has joint liability for the Note with the occupant borrower; and
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

1A.10 Multiple Properties

- Borrowers who are interested in developing multiple properties must apply for multiple loans and loan guarantees.
- For example, if an Indian Housing Authority (IHA)/Tribally Designated Housing Entity (TDHE) or Tribe wants to build 20 single-family homes for sale to individual tribal members, each of the homes must have a separate loan with a separate loan guarantee. The borrower may utilize a "master application" that references each individual home, loan, and loan guarantee.

1A.11 Ineligible Borrowers

Suspensions and Debarment

- A borrower who is suspended or debarred is not eligible for a Section 184 guaranteed mortgage.
- A participant who is subject to a limited denial of participation in programs administered by HUD's Office of Public and Indian Housing.
  - Examine HUD's Limited Denial of Participation (LDP) list and the government-wide General Services Administration's (GSA's) System for Award Management
  - If the name of any party to the transaction appears on either list, the application is not eligible for loan guarantee.
    - **Note:** An exception is made when the seller appears on the LDP list, and the property being sold is the seller's primary residence or when a party is shown on the LDP list as being denied participation in a program other than the Public and Indian Housing)
  - A copy of the LDP/GSA verification must be submitted in the loan file.

2A Transaction Types

- Purchase
- Refinance Transactions
  - No Cash Out Refinance
  - Rate/Term Refinance

Borrowers refinancing their mortgage loans are required to pay the same loan guarantee fee that is required of new acquisitions. The loan guarantee fee is non-refundable and may be financed or paid in cash at closing. The borrower will not receive credit for the fee from the loan that is being paid off.

With both no cash out and streamline refinance transactions:

- A new appraisal is always required.
- Borrowers are generally not permitted to receive cash back as part of the transaction. However, the tolerance for this policy is that the borrower may not receive cash back in excess of $500.
- Refinance transactions involving a refinance of an existing Section 184-guaranteed mortgage with a new Section 184-guaranteed mortgage are exempt from these new loan limits so long as the new mortgage does not exceed the current principal balance of the existing Section 184 mortgage.

2A.1 Rate/Term Refinance Transaction

Mortgages must have a payment history of more than 6 months to be eligible for this type of refinance. Borrowers must credit qualify to be eligible for this type of transaction.

Maximum Loan Amount- The maximum allowable mortgage amount for a no-cash out credit qualifying refinance is the lesser of:

- The existing debt: the sum of the mortgage payoff, interest, seasoned subordinate liens, closing costs, prepaid expenses, reasonable discount points, and borrower paid repairs required by the appraisal
- 97.75% of the appraised value of the property (or 98.75 percent if the value of the property is $50,000 or less); or
- The Section 184 county and state loan limits in effect the date the case was issued.

Unallowable financed fees:

- Late fees, and/or
- escrow shortage; and/or
- prepayment penalties.

Acceptable Payment History

Documenting an acceptable payment history must reflect:

- current payment status; and,
- evidence the borrower has made all payments on the mortgage on the current mortgage within the month due for the previous 12 months (or the maximum amount of time the mortgage has been in place).

Subordinate Liens

- Subordinate liens, including lines of credit, regardless of when taken, may remain outstanding provided the combined loan to value does not exceed the appraised value.
- The combined loan-to-value (CLTV) ratio of all liens cannot exceed 100 percent of the appraised value of the property.
- Use of the maximum approved credit limit of the existing subordinate lien to calculate the CLTV ratio is required.

Subordinate Lien Guidelines:

- Subordinate liens will be paid in full are required to meet 12 month seasoning requirement.
- Subordinate liens less than one year old (from the date of loan application), including equity lines of credit, may be included if the borrower provides conclusive evidence (e.g. canceled checks and paid invoices) that the proceeds were used for the repair or rehabilitation of the subject property.
- If any portion of a line of credit in excess of $1,000 was advanced within the past twelve (12) months and was for the purpose other than repairs and rehabilitation of the subject property, the line of credit is not eligible for inclusion in the new mortgage.

2A.2 Cash-Out Refinance Transaction

In order to be eligible for a cash out refinance, the property must have been owned by the borrower as his/her principal residence for 12 months or more preceding the date of the loan application.

Maximum Loan Amount- The maximum allowable mortgage amount for a cash out refinance is 85% of the appraised value of the subject property.

- **Mutual Help Purchases**- Borrowers purchasing a Mutual Help home may apply for cash out refinance to pay off their existing debt and obtain cash-out. It is required to obtain a payment history and payoff statement from the Tribe and/or the housing authority.
- **Non-Occupant Co Borrowers**- Non occupant co-borrowers may not be added to a cash-out refinance transaction in order to meet Section 184 credit underwriting guidelines requirements for the mortgage. Any co-borrower or cosigner being added to the note is required to be an occupant of the property.
- **Payments to Creditors**- All payments to third party creditors are required to be paid in full and the account closed. This must be documented on the HUD Settlement Statement.
- **Maximum Cash to Borrower**- Refinances that include a cash distribution directly to the borrower are limited to $25,000.
- **Cash-Out Letter**- The underwriting file package is required to include a detailed executed statement from the borrower describing how the funds are to be utilized.

Subordinate Liens

Existing subordinate financing may remain in place provided the CLTV does not exceed 85% of the appraised value. Must use the maximum approved credit limit of the existing subordinate lien to calculate the CLTV ratio.

Repairs to the Subject Property

If the appraisal report was completed subject to repairs,

- it is required to establish either a single close construction escrow account (for repairs of $10,000; or,
- greater) or escrow holdback at 1.5 times of the accepted bid.

Upon completion of repairs and receipt of the final inspection, any unused funds may be disbursed to the borrower.

Closing Cost Assistance Liens

- It is required to obtain the original HUD Settlement Statement for the existing mortgage to verify if

closing cost/down payment assistance was provided.
  - Tribal approval, prior to closing, is required to be obtained when tribal or Native American Housing Assistance and Self Determination Act funds were provided for the loan that is being paid off with the refinance.

Properties Owned Free & Clear

Properties owned free and clear are eligible for cash out refinance.

Credit Standards

Cash out refinances historically have a higher risk and therefore must not just meet the traditional underwriting and these additional requirements:

- No late payments in the past 24 months on all open accounts
- No late payments in the past 36 months on all mortgage accounts
- No bankruptcy, judgment, or liens in the past 48 months
- No accounts converted to collection in the past 24 months.
- All accounts that were delinquent and/or in collection and are being paid through a repayment agreement are required to include an executed repayment agreement between the creditor and the borrower and a 12-month payment history under the repayment agreement.

2A.3 Non-Arm's Length Transaction/Interested Party Transaction

An identity-of-interest transaction occurs when there is a sale between parties with a family or business relationship.

3A Subordinate Secondary Financing

Subordinate second mortgages are permitted when the following requirements are met:

- Purchase price of the home is higher than Section 184 loan limits.
- Must be included in qualifying ratios.

- Cannot substitute for the 2.25% down payment, payment of closing costs, pre-paid expenses by the borrower or an eligible donor.
- Combined first and second mortgages cannot exceed the appraised value.
- Any financing other than the first mortgage that creates a lien against the subject property is considered secondary financing. Secondary financing can be provided by governmental entities, family members or even lenders.
- The Section 184 guaranteed first mortgage, when combined with any type of second mortgage or other junior lien may not result in cash back to the borrower.
- The CLTV of all liens cannot exceed 100% of the appraised value of the property for purchase and rate/term refinances .
    - Note: The cost to acquire the property includes the following:
        - The sales price; plus,
        - Borrower-paid closing costs, discount points, repairs and rehabilitation expenses, and prepaid expenses.) Use the maximum approved credit limit of the existing subordinate lien to calculate the CLTV.
- The required monthly payments for both the Section 184 guaranteed first mortgage and the second mortgage, plus other housing expenses and all recurring charges, cannot exceed the borrower's reasonable ability to repay (the DTI can never exceed 43%).
- Unless the borrowers provides conclusive evidence that the borrowed funds do not require repayment (e.g., some thrift and retirement plans or various loans secured by deposited funds or a soft second mortgage from the tribe or IHA/TDHE), the monthly debt resulting from the loan must be included in the borrower's qualifying ratios.
- Section 184 program reserves the right to reject any secondary financing that does not serve the needs of the intended borrower, or if the costs to the borrower outweigh the benefits derived.
- An executed copy of the loan document(s) describing the terms of the secondary financing and the HUD-1 Settlement Statement must be maintained in the endorsement binder.
- The Section 184 guaranteed first mortgage cannot exceed the program loan limits; however, the combined total loan amount of the mortgages may exceed the loan limit maximum.
- The source, amount, and repayment terms must be disclosed in the loan application, and the borrower must acknowledge that they understand and agree to the terms of the secondary financing.

4A Eligible Property Types

- The subject property that is guaranteed by the Section 184 program must be in an approved Indian operating area.
- All housing under the Program must be considered modest in size and design
- No loan may exceed 150% of the maximum FHA mortgage limit for the area
- The Section 184 statute specifies minimum unit sizes for the program. The size of the unit may be no smaller than:
    - 570 square feet in size, if the unit is designed for a family of one to four persons.
    - 850 square feet in size, if the unit is designed for a family of between five and seven persons.
    - 1,020 square feet in size if the unit is designed for a family of eight or more persons.

  Or
    - The unit must be of the size provided under locally adopted standards for the size of dwelling units

4A.1 Condominium

- Must be approved by Federal Housing Administration (FHA).
- Provide a copy of the Condominium Project Approval from FHA Connection for the file.
- Must have 2 years of Financial Statements from the condominium management for review and final approval.

4A.2 Manufactured/Modular Home

- Minimum gross living area is 570 sq. ft.
- Built after June 15, 1976
- Home must be de-titled
- Classified and taxed as real estate
- HUD labels and the data plate must be located.
- Missing label information can be obtained from IBTS
    - The cost is approximately $50 and takes 3-5 business days to receive
- The home must have a permanent foundation, and the home must be attached to ground with mechanical fasteners.
- Must not have been installed or occupied previously at any other site or location

- Finished grade elevation beneath the manufactured home or, if a basement is used, the lowest exterior grade adjacent to the perimeter enclosure, must be at or above the 100-year return frequency flood elevation.
- Properly enclosed crawl space with a continuous permanent foundation-type construction
- Either of the following documents must be provided to HUD:
  - A certification to the state that the foundation substantially complies with the HUD Handbook Permanent Foundation Guide for Manufactured Housing, or
  - Evidence manufactured home is installed in accordance with stated adopted standards, or
  - Certification from an engineer that the foundation is of sufficient size and strength to support the unit(s), and is attached in a manner that will withstand normal wind and snow loads
  - Unless otherwise contradicted by tribal building codes

4A.3 Single Family Property

Structure containing one to four family dwelling units or up to four individual buildings located on one lot. The following variations are acceptable one to four dwelling unit types:

- Units do not have to be connected to be considered multi-units and eligible for guarantee
- Can be detached from one another
- Property must be described legally as one property
- Property must conform to local zoning
- All units must recognize as a legal dwelling

In order to be considered a single structure, multiple units must share a common roof and at least one wall that is connected to another unit.

Note: A site with four separate, non-connected structures is not considered to be one single-family unit but may be eligible for a Section 184 Guarantee if it meets the criteria established in the above bullet points.

4A.4 Energy Related Weatherization Items

If the borrower is responsible for payment of energy-related weatherization items, then such items may be eligible for inclusion in the mortgage. Weatherization items include thermostats, insulation, storm windows and doors, weather stripping and caulking, etc. There monetary caps are as follows:

- $2,000 without a separate value determination
- $3,500 if supported by a value determination by an approved appraiser or contractor, or
- More than $3,500 subject to a value determination and an on-site inspection made by an appraiser/inspector that is listed on the applicable FHA Roster or by Newrez client.

4A.5 Property Flipping

If the owner of a property is attempting to sell a home they acquired within the previous 90 days from the date of the contract of sale to the applicant that property will not be eligible for a Section 184 loan.

Underwriters may grant an exception to this rule under the following circumstances:

- All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction.
  - Determine the following:
    - The seller holds title to the property
    - LLCs, corporations, or trusts that are serving as sellers were established and are operated in accordance with applicable state and federal law; no pattern of previous flipping activity exists for the subject property, as evidenced by multiple title transfers within a 12-month time frame (chain of title information for the subject property can be found in the appraisal report); the property was marketed openly and fairly.
- When the sales price of the property is ≥20% and above the seller's acquisition cost, an exception is possible only if delegated client verifies and documents that the seller has completed sufficient legitimate renovation, repair, and rehabilitation work on the subject property to substantiate the increase in value or, in cases where no such work is performed, the appraiser provides appropriate explanation of the increase in property value since the prior title transfer; and orders a property inspection and provides the inspection report to the purchaser before closing (the inspector must have no interest in the property or relationship with the seller, and must not receive compensation for the inspection from any party other than Newrez client.

5A Manual Underwriting

5A.1 Prequalification

HUD does not prequalify applicants. Newrez clients are responsible for ensuring applicants meet the program requirements prior to requesting an assignment of a case number.

Once the eligibility thresholds have been satisfactorily determined, Newrez client should request a case number from the Office of Loan Guarantee.

- The case number should be submitted on HUD Form 50131.
- A case number is valid for up to 180 days from issuance. Unless an extension is requested from the Office of Loan Guarantee, after 180 days case numbers will be cancelled by HUD without further notice and Client must send a new request for a case number.

At the time, a case number is assigned the client will need to determine whether the property is located on land held in trust by the federal government and if so, whether the loan will be underwritten through:

- Direct Guarantee process: To participate in Direct Guarantee, delegated client must be an approved Section 184 lender and must submit the documentation listed below to the Office of Loan Guarantee (OLG):
    - Must be an Approved FHA Direct Endorsement lender and submit verification of the lender's Direct Endorsement Approval including underwriters, appraisers and inspectors that will participate in the Direct Guarantee Procedure, or
- Identify if the file will be sent to HUD for underwriting.

Before HUD can underwrite any loan, client must secure documentation from the tribe's Environmental Review Record (ERR) verifying the environmental review was completed in accordance with 24 CFR Part 58 by the tribe whose land is impacted by the proposed mortgage. In addition, the tribe will send HUD a request for Release of Funds, which will be approved by HUD as part of the underwriting process.

Note: The direct guarantee process must be used for underwriting all loans occurring on lands that are not held in trust by the federal government and that there is no environmental review required for these loans.

5A.2 Manual Underwrite

- Compensating factors cited to support the underwriting decision must be recorded in the Underwriting Comments section of the HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary
- Documentation supporting the compensating factors cited must be included in the endorsement case binder including, if applicable, a worksheet attached to HUD-92900-LT reflecting the calculation of residual income.
- The maximum qualifying ratios and compensating factors applicable to manually underwritten loans are summarized in the matrix below:
- Refer to Borrower Eligibility regarding Non-Occupant Co-Borrowers with no credit score.

Compensating Factors

A DTI of up to 43% may be acceptable if at least 2 out of the 5 compensating factors listed below are presented. Compensating factors include, but are not limited to:

- Minimal housing increase (no more than 15%)
- Strong credit history (≥700)
- The borrower has additional income that has not been included in qualifying that will, if used as qualifying income, reduce the DTI to below 41%
- The borrower has substantial cash reserves after closing (≥6 months)
- ≤75% LTV

5.3 Age of Documentation

Credit, income, and valuation verification may not be older than 60 days at underwriting and may not be older than 120 days when the loan closes.

6A Credit Requirements

6A.1 Credit Report Requirements

- Obtain a Three Repository Merged Credit Report (TRMCR) for each borrower
- The following circumstances may require ordering a Residential Mortgage Credit Report (RMCR):

- Borrower disputes accounts on TRMCR
- Borrower states that collections, judgments, or liens reflected as open on the TRMCR have been paid, but cannot provide separate supporting documentation
- Borrower claims that certain debts shown on the TRMCR have different balances and/or payments, but cannot provide current statements (less than 30 days old);
- The underwriter determines that it would be prudent to use an RMCR in lieu of a TRMCR to properly underwrite the loan

- A borrower is not eligible for a Section 184 guaranteed mortgage if presently delinquent on any type of federal debt, unless there is evidence of an accepted repayment plan, and 12 months of timely payments have been made by the borrower to the federal agency owed.
- Under the Debt Collection Improvement Act, borrowers who owe outstanding delinquent debts to the federal government are not eligible for loan guarantees. This requirement cannot be waived by the Director of the Office of Loan Guarantee.
- Determine if the borrower has any delinquencies by running the borrower through HUD's CAIVRS
- Each account with a balance must be verified within 60 days of the date of the credit report
- Borrower must explain all credit inquiries shown on the credit report for the last 90 days

6A.1 Alternative/Non-traditional Credit

If a borrower has not established a conventional credit history (as reported by the three major credit bureaus) or a minimum conventional credit history, Newrez client is permitted to develop a credit history from other means, such as rent, utility payments, auto insurance, phone bill, etc.

For a borrower to credit qualify using alternative credit, an underwriter must establish a minimum of two credit sources that have at least 12-month repayment history demonstrating the borrower's ability to repay a loan.

Note: Alternative credit may not be used to replace or offset bad credit shown on a traditional credit report.

6A.2 Collections

- All collections, including medical collections, must show evidence of payment in full prior to the date of closing.
- Borrower must furnish a written letter of explanation or must have reestablished good credit.

6A.3 Delinquent Accounts

- Determine if late payments were due to a disregard for financial obligations or factors beyond the borrower's control
  - The underwriter must note these issues in the loan file and determine if additional clarifying information is needed
- Determine if a letter of explanation is needed for a derogatory credit item within the last 2 years
- Reporting of significant derogatory credit beyond 2 years that includes multiple accounts may also require a written explanation
- Underwriters must use their best judgment and experience to determine whether the late payments were due to a disregard for financial obligations, an inability to manage these obligations, or factors beyond the control of the borrower

Note:

- If a borrower has only ≤ 2 late payments (no more than 30 days late) that show up on their credit report, and otherwise has a good payment history, no written explanation from the borrower is needed.
- Any minor derogatory incidents occurring > 2 years before the loan application do not require a written explanation. However, these items should still be noted in the loan file.

6A.4 Disputed Accounts

- When the borrower disputes ownership of accounts showing up on their credit report, or claim that collections, judgments, garnishments, or liens have been paid, the borrower must submit documentation that reasonably supports their assertions.
- Determine if the borrower's documentation reasonably supports their contention that the item is disputed.
  - **Note:** If there is reasonable evidence that the dispute will be resolved in the borrower's favor then the loan may proceed without seeking a waiver.

6A.5 Significant Derogatory Credit

6A.5(a) Bankruptcy

- Must be fully discharged
- The borrower must have reestablished good credit
- Demonstrated an ability to manage financial affairs
- ≥ 2 years between discharge of the bankruptcy and the mortgage application date
  - A shorter elapsed time but not less than 12 months may be considered, if client is able to document those extraordinary circumstances caused the bankruptcy (such as an extended illness that was not covered by health insurance) and that the borrower's current situation is such that the events that led to the bankruptcy are likely not to recur
- Chapter 13 or making payments through a Consumer Credit Counseling plan may also qualify if:
  - One year of the pay-out period has elapsed and performance has been timely and current; and
  - The borrower receives court approval (if Chapter 13) to enter the mortgage transaction

6A.5(b) Foreclosure

- If it is determined the borrower previously defaulted on a FHA, USDA, VA or Section 184 loan, the underwriter will then need to determine if the federal government had to sell that home for less than the unpaid principal balance on that loan.
  - Contact the federal agency that insured/guaranteed the borrower's previous loan
- A borrower that has a mortgage foreclosed is not eligible to apply for another government loan until 3 years after the date the insurance claim was paid to the lender.
- A 7- year waiting period applies, when a borrower defaults on the Section 184 loan and there is a claim payment by HUD.
- If the borrower has previously had a Section 184 insured home foreclosed upon, they are permanently ineligible for a future Section 184 loan.

6A.5(c) Judgments, Garnishments, or Liens

- Must be at least 2 years between a judgment, garnishment, or lien entered against the borrower and the mortgage application.
- After 2 years, show evidence of payment in full for at least 12 months prior to the date of application.

- Borrower must furnish a written letter of explanation and have reestablished good credit.

6A.5(d) Short Sale/Deed In Lieu

- Borrowers in default at the time of the short sale (or pre-foreclosure sale/deed in lieu of foreclosure) are not eligible to apply for another government loan until 3 years from the date of the sale.
- If the borrower has previously had a Section 184 insured home end in a short sale, they are permanently ineligible for a future Section 184 loan.

6B Suspensions and Debarment

- An applicant who is suspended or debarred is not eligible for a Section 184 guaranteed mortgage.
- An applicant who is subject to a limited denial of participation in programs administered by HUD's Office of Public and Indian Housing is not eligible for section 184 guaranteed mortgage.
  - Examine HUD's "Limited Denial of Participation (LDP) List and the government-wide General Services Administration's (GSA's) System for Award Management if the name of any party to the transaction appears on either list, the application is not eligible for a loan guarantee
  - An exception is made when the seller appears on the LDP list and the property being sold is the seller's principal residence or when a party is shown on the LDP list as being denied participation in a program other than Public and Indian Housing. A copy of the LDP/GSA verification must be submitted in the underwriting case binder.

7A Assets

The following are acceptable source of borrower funds.

- Earnest Money Deposit
- Savings and checking accounts
- Gift funds from a relative or charity which does not directly or indirectly receive a financial benefit as a result of making the gift
- Secured funds
- Sales proceeds
- Trade equity
- Sale of personal property

- Savings bonds and other similar certificates
- Cash on hand
- IRAs
- 401(k) and Keogh accounts
- Stocks and bonds
- Private savings clubs
- Sweat equity
- Tribal/government assistance
- Documented rent credit (determined by the appraisal)
- Employer assistance plans

7A.1 Minimum Borrower Contribution/Down Payment

The borrower is required to make a minimum down payment of at least 2.25% of the lesser of the appraised value of the property or the sales price. The borrower must have sufficient funds to cover borrower-paid closing costs and fees at the time of settlement. Funds used to cover the required minimum down payment, as well as closing costs and fees, must come from acceptable sources, and must be verified and properly documented.

7A.2 Verification of Earnest Money Deposit

Newrez Client must verify the deposit amount and the source of funds used by the borrower. Satisfactory documentation includes a copy of the borrower's cancelled check and a bank statement, as well as a verification of deposit (VOD) or bank transaction statement dated after the earnest money deposit check has cleared.

7A.3 Borrower Funded Land Improvements

Improvements made to land already owned by the borrower may be used to meet the 2.25% cash investment. For these improvements to be valued they must be included in the appraised value of the land. Additionally, for these funds to count towards the borrower's cash investment the underwriter must document that the improvements came from an acceptable source of funds.

7A.4 Cash on Hand

Borrowers who have saved cash at home and are able to adequately demonstrate the ability to do so, are permitted to have this money included as an acceptable source of funds to close the loan. To include cash saved at home when assessing the borrower's cash assets, the money must be verified, whether deposited in a financial institution, or held by the escrow/title company, and the borrower must provide satisfactory evidence of the ability to accumulate such savings. To use this source, Newrez Client must satisfactorily determine the reasonableness of the accumulation based on the borrower's income, the time period of savings, spending habits and history of using financial institutions.

7A.5 Checking or Savings Accounts

If there is a large increase in a checking or savings account, or the account was opened recently, an explanation and 2 months of recent bank statements must be obtained as evidence of source of funds.

7A.6 Gift Funds

- There must be no expected or implied repayment of the funds to the donor by the borrower.
- An outright gift for the cash requirement is acceptable if the donor is the borrower's relative, the borrower's employer or labor union, a charitable organization, a governmental agency or public entity (specifically including tribal entities) that has a program to provide homeownership assistance to low-and-moderate-income families or first-time homebuyers, or a close friend with a clearly defined and documented interest in the borrower.
- The gift donor may not be a person or entity with an interest in the sale of the property, such as the seller, real estate agent or broker, builder, or any entity associated with them.
    - Gifts from these sources are considered inducements to purchase and must be subtracted from the sales price. No repayment of the gift may be expected or implied.
- Newrez Client must be able to determine that the gift funds were not provided by an unacceptable source and were the donor's own funds. When the transfer occurs at closing, Newrez Client is responsible for verifying that the closing agent received the funds from the donor for the amount of the gift, and the funds were from an acceptable source.
- Only family members may provide equity credit as a gift on property being sold to the other family members.

- The Section 184 program deems the payment of consumer debt by third parties as an inducement to purchase. When someone other than a family member has paid off debts or other expenses on behalf of the borrower the funds must be treated as an inducement to purchase, and there must be a dollar-for-dollar reduction to the sales price when calculating the maximum insurable mortgage.
- **Documentation Requirements**
  - Borrower provides a gift letter from the donor that includes:
    - Donor's and Borrower's signatures
    - Donor's
      - name
      - address
      - telephone number
    - Specify the dollar amount of the gift
    - Nature of donor's relationship to the borrower
    - No repayment is required.
- The dollar for dollar reduction to the sales price also applies to gift funds not meeting the requirements that the gift be for down payment assistance and provided by an acceptable source.

7A.7 IRAs, 401(k), and other Retirement Accounts

Up to 60% of the value of the accounts may be included in the underwriting analysis, unless the borrower provides conclusive evidence that a higher percentage may be withdrawn, after subtracting any federal income tax and withdrawal penalties.

Note: Redemption evidence is required; and the portion of the assets not used to meet closing requirements may be counted as reserves at the 60% rate.

7A.8 Rent Credit

- The cumulative amount of rental payments that exceed the appraiser's estimate of fair market rent may be considered accumulation of the borrower's cash investment. The rent with option to purchase or other rent credit agreement and the appraiser's estimate of market rent must be included in the loan file.
- If the sales agreement reveals that the renter has been living in the property (or one owned by the seller) rent-free, or that an agreement was made allowing the renter to occupy at a rental amount

considerably below fair market in anticipation of eventual purchase of the property, this must be treated as an inducement to purchase with an appropriate reduction to the sale price when calculating the borrower's acquisition cost.

- Exceptions may be granted in situations such as when a builder fails to deliver the property at an agreed-to time, and then permits the borrower to occupy that property or another unit for less than market rent temporarily until constructions is complete.

7A.9 Sale of Personal Property

If the borrower intends to sell personal property items (such as cars, recreational vehicles, stamp, coin, or baseball card collections) to obtain funds required for closing, the borrower must provide conclusive evidence the items have been sold and satisfactory estimate of their worth. The estimated worth of the items being sold may be in the form of published value estimates, such as those issued by automobile dealers, philatelic or numismatic associations or a separate written appraisal by a qualified appraiser (with no financial interest in the loan transaction). Only the lesser of this estimate of value or the actual sales price less any obligation(s) secured by the personal property, is considered as assets to close. The assets received must be deposited and verified.

7A.10 Sales Proceeds from Real Property

The net proceeds from an arms-length sale of a currently owned property may be used for the cash investment on a new house. The borrower must provide a fully executed HUD-1 Settlement Statement as satisfactory evidence of the accrued cash sales proceeds. If the property has not sold as of the time of underwriting, the borrower's approval must be conditioned upon verifying the actual proceeds received by the borrower. Newrez Client must document both the actual sale and the sufficiency of the net proceeds required for settlement.

Note: If the property will not be sold by the time of the subject settlement, the property must meet the departure residence requirements and the existing mortgage must be included as a liability for qualifying purposes.

7A.11 Savings Bonds

Government-issued bonds are counted at the original purchase price unless eligibility for redemption and the redemption value are confirmed. Actual receipt of funds must be verified.

7A.12 Secured Loans

- The borrower may borrower against any collateral authorized under federal, state, or tribal law, provided that the loan is fully secured by assets such as stocks, bonds, and real estate other than the property being purchased. Unsecured loans are not allowed.
- Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The asset securing the loan may not be included as assets to close, or otherwise considered available to the borrower.

7A.13 Stocks and Bonds

Newrez Client may use the most recent monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio to verify the value of stocks and bonds. The borrower's actual receipt of funds must be verified and documented.

7A.14 Sweat Equity

- Labor performed or materials furnished by the borrower on the property being purchased may be considered as the equivalent of a cash investment to the extent of the estimated cost of the work or materials. (Sweat equity may be gifted subject to both the gift requirements and additional requirements shown below.)
- On existing construction, only repairs or improvements listed on the appraisal or work plans, or specifications are eligible for sweat equity. Any work completed or materials provided before the appraisal is made are not eligible. On proposed construction, the sales contract must indicate the work to be performed by the homebuyer during the construction.
- The borrower's labor may be considered as the equivalent of cash if the borrower can demonstrate his or her ability to complete the work in a satisfactory manner. Newrez Client must document the contributory value of the labor through either the appraiser's estimate or a cost estimating method.
- Delayed work (on-site escrow), clean up, debris removal, and other general maintenance cannot be included as sweat equity.
- Sweat equity on a property other than the property being purchased is not acceptable.
- Compensation for work performed on other properties must be monetary and be properly documented and verified if the funds are to be used to close the subject transaction. If materials furnished by the borrower are to be used to purchase a property, then the market value of the materials must be provided.

Note: There can be no cash back to the borrower with sweat equity; sweat equity cannot be used as a source of down payment funds on a single-close loan.

7A.15 Trade Equity

- The borrower may agree to trade his or her home to the seller as part of the cash investment. The amount of the borrower's equity is determined by subtracting all liens against the property being traded plus any real estate commission due from the lesser of that property's appraised value or sales/trade price.
- Evidence of ownership is also required.
- Any remaining balance on the lien not covered by the equity cannot be included as an acquisition cost for the new loan.
- The appraisal must be a residential appraisal (conventional, HUD, or VA) and not more than 120 days old on the date of the trade. Additionally, if the property being traded has a HUD-FHA insured mortgage, HUD-FHA assumption processing requirements and restrictions apply.

7A.16 Unacceptable Assets

- Signature loans
- Cash advances on credit cards
- Unsecured financing

8A Liabilities and Debts

- Include the following when calculating the DTI for recurring obligations:
  - Monthly housing expense (including principal, interest, taxes, insurance, and condo/HOA fees; and
  - Additional recurring charges extending 10 months or more, such as payments on installment accounts, child support or separate maintenance payments, revolving accounts, and alimony
- Debts that will be paid in full in less than 10 months must be included if the amount of the debt affects the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after loan closing.
  - **Note:** Monthly payments on revolving or open-ended accounts, regardless of the balance are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less.

- If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of 5% of the balance or $10.
    - **Note:** If the actual monthly payment is documented from the creditor or Newrez Client obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

8A.1 Alimony

Newrez Client may choose to treat the monthly alimony obligation as a reduction from the borrower's gross income when calculating qualifying ratios, rather than treating it as a monthly obligation.

8A.2 Contingent Liability on Cosigned Obligations

- The debt must be included if the borrower is a co-signer/co-obligor on a car loan, student loan, mortgage, or any other obligation.
- If the creditor obtains documented proof that the primary obligor has been making regular payments during the previous 12 months and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.

8A.3 Contingent Liability on Mortgage Assumptions

Contingent liability must be considered when the borrower remains obligated on an outstanding mortgage secured by a property which has been sold or traded within the last 5 years without a release of liability.

Exemption: When a mortgage is assumed, contingent liabilities need not be considered if any of the following factors are present:

- The originating lender of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 24 months
- Value of the property, as established by an appraisal or the sales price on the Closing Disclosure from the sale of the property, results in ≤75%
- There was a divorce and the borrower's ex-spouse was awarded both the property and responsibility for payment of the mortgage as a part of the legal separation or divorce settlement. A copy of the separation agreement or divorce decree is acceptable evidence. The liability must

have been current prior to the date of the divorce or legal separation, while the borrower was liable.

- The borrower was transferred by his or her employer and is covered by a home sale guarantee plan. A copy of the relocation agreement is acceptable evidence.

8A.4 Departing Residence

When a borrower is vacating his or her current principal residence that has a mortgage but he or she will not be selling their existing residence prior to purchasing a home with Section 184 financing, loan approval is based on establishing evidence that the borrower is relocating with a new employer or being transferred by their current employer to an area beyond a reasonable commuting distance (50 miles or more).

If the borrower meets this requirement, the following three requirements also apply:

- The borrower must income and credit-qualify based on both full PITIs. HUD will not include rental income from the departure residence in the borrower's DTI ratio.
- Value of Departing Residence: The departure residence must evidence ≤75% LTV, as determined by either:
  - a current residential appraisal (no more than 180 days old), or
  - comparing the unpaid principal balance to the original sales price of the property.
- Rental Lease agreement: The applicant must have the following:
  - An executed rental lease with a one-year term that will begin on or before the purchase of the new home with following documents:
    - Copy of fully executed lease; and
    - Evidence of the security deposit, and/or
    - Evidence of the first month's rent paid to homeowner.
  - Evidence the home will be sold after closing with following documents:
    - Fully executed listing agreement, and/or
    - Documents to support property is pending sale in lieu of renting.
- Increase in legal dependents thus the departing property fails to meet family needs.

If the borrower meets this standard, then they must also meet the following requirements:

- The departure residence is not a 184 loan.
- Borrowers cannot have two active 184 loans.

- The borrower must have two months cash reserves.

8A.5 Housing Payment History

Newrez Client must include a recent 24-month history of mortgage, rental, or other residency.

Verification sources can include:

- Credit report
- Mortgage payment information from the financial institution
- Verification of rent from landlord and/or other alternative documents to support residency

All documentation must cover a 24-month payment history and identify the address and amount of monthly payment.

8A.6 Projected Increase in Housing Expense

If the new housing expense will significantly exceed the previous housing expense, then Newrez Client must determine if the borrower has either exhibited an ability to accumulate savings or can otherwise show that he or she has the ability to manage financial affairs.

Newrez Client may also document other reasonable compensating factors to allow for loan approval despite the significant increase in projected housing expense (however, the projected mortgage interest deduction on the borrower's federal income tax return, while beneficial to the borrowers, is not a compensating factor and may not be included in the analysis.)

8A.7 Projected Obligations

Debt payments, such as a student loan, car lease, or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the creditor as anticipated monthly obligations during the underwriting analysis.

- Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe.

- If a borrower has a loan in forbearance or deferment due to a hardship (not due to being school), then the projected student loan amount must be included by the creditor as anticipated monthly obligations during the underwriting analysis.

8A.8 Underwriting Multi-Unit Properties (2-4 Units)

The underwriter must evaluate the following factors:

- The rental income from all units must be equal to or greater than the monthly mortgage payment.
- Borrowers must qualify for the mortgage based on income, credit, and the necessary cash to close.
- The borrower(s) must demonstrate their financial ability to pay the full PITI; projected rents cannot be used to offset the monthly mortgage payment.

8A.9 Obligations Not Considered Debt

- Federal, state, and local taxes
- Federal Insurance Contributions Act (FICA)
- Retirement contributions
    - 401(k) accounts (including repayment of debt secured by these funds)
- Commuting costs
- Union dues
- Open accounts with zero balances (at time of loan application)
- Automatic deductions to savings accounts
- Child-care
- Voluntary deductions

9A Employment and Income

Income Analysis

- Verify the most recent 2 full years
- The borrower must
    - explain any gaps in employment that are greater than 1 month
    - indicate if the borrower was in school/the military for the recent 2 full years, providing evidence supporting this claim, such as college transcripts, or discharge papers.

- Newrez Client should favorably consider a borrower if there are frequent job changes within the same line of work, but continue to advance in income or benefits
- Analyze the probability of continued employment

9A.1 Borrower Returning to Work After an Extended Absence

- Absence ≥ 6 months or longer
- Adequately explain the absence as well as:
  - Show current employment of ≥ 6 months or longer
  - Document a 2-year work history prior to absence from employment using traditional employment verifications, and/or copies of IRS Form W-2s or paystubs.

9A.2 Salaries, Wages, and Other Forms of Income

- 3 years continuance
- Obtain IRS tax transcripts for the most recent 2 years
- Effective income for borrowers planning to retire during the first 3 year period of the proposed mortgage must include the amount of documented retirement benefits, Social Security payments, or other payment expected to be received in retirement.

9A.3 Automobile Allowance and Expense Account Payments

- Only the amount by which the borrower's automobile allowance or expense account payments exceed actual expenditures may be considered income
- To establish the amount to add to gross income, the borrower must provide the following:
  - IRS Form 2106, Employee Business Expenses for the previous 2 years
  - Employer verification that the payments will continue.
- If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to the income.
- Expenses that must be treated as recurring debt include:
  - The borrower's monthly car payment
  - Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance

9A.4 Commission Income

- Receives more than 25% of annual income from commissions
- Averaged over the previous 2 years
- To qualify, the borrower must provide:
  - Copies of signed tax returns and tax transcripts for the last 2 years
  - Most recent paystub that shows a year-to-date commissions
- Borrowers whose commission income was received for more than one year but less than 2 years, may be considered favorably only if the underwriter can soundly rationalize accepting the commission income
- Income that is <25% of the borrower's annual income should be treated under the same guidelines as Overtime and Bonus Income.
- Unreimbursed business expenses must be subtracted from gross income.

Note:

- Exceptions may be made for situations in which the borrower's compensation was changed from salary to commission within a similar position with the same employer.
- A borrower may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the borrower.

9A.5 Employer Differential Payments

When an employer subsidizes a borrower's mortgage payment through direct payments, the amount of the payments is

- Considered gross income
- Cannot be used to offset the mortgage payment directly for qualifying purposes, even if the employer pays the servicing creditor directly

9A.6 Part-Time & Seasonal Income

- Received this type of income for the past 2 years and is likely to continue
- Less than 2 years may be included as effective income, provided Newrez Client justifies and documents compensating factors, refer to AUS Requirements.

- Seasonal income is considered uninterrupted, and may be used to qualify the borrower if the Newrez Client documents the following:
  - Has worked the same job for the past two years
  - Expects to be rehired the next season

  Note: "part-time" income refers to employment taken to supplement the applicant's income from regular employment; part-time employment is not a primary job, and it is worked less than 40 hours per week.

9A.7 Overtime and Bonus Income

- Received this type of income for the past 2 years and is likely to continue
- Develop a 2-year average earning trend
- If the earning trend shows a decline, use the bonus/overtime income from the time period with the lowest earnings
- Less than 2 years may be acceptable, provided Newrez Client can justify and document in writing the reason for using the income for qualifying purposes.

9A.8 Retirement Income

- Must be verified from the former employers, or from the federal tax returns and tax transcripts
- If any retirement income, such as employer pensions or 401(k)s, will cease within the first full 3 years of the mortgage loan, such income may not be used in qualifying.

9A.9 Social Security Income

- Must be verified by obtaining a benefit verification letter issued by the Social Security Administration
- Obtain a complete copy of the current awards letter
- Not all Social Security income is for retirement-aged recipients; therefore, documented continuation is required; for example, requesting the initial award letter that indicates the award review cycle;
- Some portion may be grossed up if deemed non-taxable by the IRS.

9A.10 Self-Employed Income

- Any borrower with ≥25% ownership interest in a sole proprietorship, corporation, limited liability or "S" corporation, or partnership
- Considered stable and effective if the borrower has been self-employed for ≥ 2 years
- Due to the high probability of failure during the first few years of business, the requirements below are necessary for borrowers who have been self-employed for less than 2 years:

If the period of self-employment is…	then…
between one and 2 years	• Must have at least 2 years of documented previous successful employment in the line of work in which the individual is self-employed or in a related occupation. **Note:** A combination of one year of employment and formal education or training in the line of work in which the individual is self-employed, or in a related occupation is also acceptable.
less than one year	the income from the borrower may not be considered effective income.

9A.11 Borrowers Employed by a Family Owned Business

- Provide evidence that the borrower is not an owner of the business which may include:
  - A copies of singed personal tax returns,
  - Signed copy of the corporate tax return showing ownership percentage

9A.12 Documentation Requirements for Self-Employed Borrowers

- Signed, dated individual tax returns, with all applicable tax schedules for the most recent 2 years; or for a corporation, "S" corporation, or partnership, signed copies of Federal business income tax returns for the last 2 years, with all applicable tax schedules;
- Year to date profit and loss (P&L) statement and balance sheet, and
- 2 years of tax transcripts obtained directly from the IRS;
- Evidence of quarterly tax payments for current year

9A.12(a) Establishing Earnings Trend

- If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, Newrez Client must base the income analysis solely on the income verified through the tax returns
- If the borrower's earnings trend for the previous 2 years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate income.

9B Other Income

9B.1 Alimony, Child Support, or Maintenance Payments

Income may be considered effective if:

- Payments are likely to be received consistently for the first 3 years of the mortgage
- The borrower provides the required documentation, which includes a copy of the final divorce decree; legal separation agreement; court order; or voluntary payment agreement;
- Borrower can provide acceptable evidence that payments have been received during the last 12 months, such as: cancelled checks, deposit slips, tax returns or court records

Note: Periods less than 12 months may be acceptable; provided Newrez Client can adequately document the payer's ability and willingness to make timely payments.

9B.2 Boarder Income

- Income from roommates or a boarder in a single family property occupied as the borrower's primary residence is not acceptable.
- Rental income from a roommate or boarder may be considered effective, if shown on the borrower's tax return. If not on the tax return, rental income paid by the roommate/boarder may not be used in qualifying

9B.3 Education Benefits

Education benefits received to offset education expenses are not considered income.

9B.4 Government Assistance Programs

Income may be considered effective if:

- Paying agency provides documentation indicating that the income is expected to continue for at least 3 years
- If the income will not be received for at least 3 years, it may not be used in qualifying.
- Unemployment income must be documented for 2 years, and there must be reasonable assurance that this income will continue.
  - This requirement also applies to Seasonal Employment.

9B.5 Interest and Dividends

Income may be considered effective if:

- Including tribal distributions or per capita income from gaming)
- Tax returns or account statements support a 2 year receipt history
- Averaged over 2 years
- Subtract any funds that are derived from these sources and are being used for the cash investment, before calculating the projected interest or dividend income

9B.6 Military Income

- Military personnel not only receive base pay, but often are entitle to additional forms of pay, such as income from variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay.
- Types of additional pay is acceptable when analyzing the borrower's income as long as the probability of such pay to continue is verified in writing.

Note: The tax-exempt nature of some of the above payment should also be considered.

9B.7 Mortgage Credit Certificate (MCC)

- If a government entity subsidizes the borrower's mortgage payments, either through direct payments or through tax rebates, these payments can be considered as acceptable income if verified in writing.

- Either type of subsidy may be used to directly offset the mortgage payment before calculating the qualifying ratio
- The expense involved in obtaining an MCC is considered a prepaid expense and cannot be financed in the closing costs.

9B.8 Nontaxable Income

Examples of nontaxable income include:

- Some portion of Social Security
- Some Federal government employee retirement income
- Railroad Retirement benefits
- Certain types of disability and public assistance payments
- Child Support
- Military Allowances
- Some state government retirement income

- The amount of continuing tax savings attributed to regular income not subject to federal taxes may be added to the borrower's gross income
- The percentage of nontaxable income that may be added cannot exceed the appropriate tax rate for the income amount
- Document and support the amount of income grossed up for any non-taxable income source, and
- Use the tax rate used to calculate the borrower's last year's income tax.
  - If the borrower is not required to file a Federal tax return, the tax rate to use is 25%.
- Projected or hypothetical income is not acceptable for qualifying purposes
  - **Exception:** An exception for projected income is permitted for income from the following sources provided the income must be verified in writing by the employer and scheduled to begin within 30 days of loan closing. See Projected Income requirements below.
    - Cost-of-living adjustments
    - Performance raises
    - Bonuses

9B.9 Notes Receivable

Income may be considered effective if the following documentation is provided:

- Copy of the note to establish the amount and length of payment
- Evidence that these payments have been consistently received for the last 12 months through deposit slips, cancelled checks, or tax returns

9B.10 Capita Income

This is a form of income commonly paid to tribal members from tribal trust income (the most common example is income derived from tribal gaming operations).

- Tax returns support a 2 year receipt history
- Averaged over 2 years
- Subtract any funds that are derived from these sources and are being used for the cash investment, before calculating the per capita income

9B.11 Projected Income

Projected income is acceptable for qualifying purposes for a borrower scheduled to start a new job within 60 days of loan closing if there is a guaranteed non-revocable contract for employment.

- Verify that the borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment
- The loan is not eligible for endorsement if the loan closes more than 60 days before the borrower starts the new job.
- To be eligible for endorsement, Newrez Client must obtain from the borrower the most recent 30 day's pay stubs or other acceptable evidence indicating that he/she has started the new job

9B.12 Rental Income

Rent received for investment properties owned by the borrower is acceptable as long as rent stability of the rental income can be documented through the following:

- A current lease
- Rental history over the previous 24 months that is free of unexplained gaps greater than 3 months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation).
- Separate schedule of real estate is not required for rental properties as long as all properties are documented on the loan application

Note: Rental income from any property being vacated by the borrower may not be considered, except Boarder Income.

9B.12(a) Rental Income Documentation Requirements

- IRS Form 1040 Schedule E
    - Required to verify all rental income.
    - Depreciation shown on Schedule E may be added back to the net income or loss.
    - Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability
    - Confirm that the borrower still owns each property listed, by comparing the Schedule E with the real estate owned section of the loan application
- Current leases/rental agreements

9B.12 (b) Exclusion of Rental Income from Property Being Vacated by the Borrower

- Rental income from the borrower's principal residence that is being vacated in favor of another principal residence may not be considered.
    - This does not apply to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of Form IRS 1040)
- Ensures the borrower has sufficient income to make both mortgage payments without any rental income

9B.12 (c) Rental Income from Borrower's Occupied Property

Rent for multiple unit property where the borrower resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes.

- Projected rent for the tenant-occupied unites may not be used for qualifying income. IRS Form 1040, Schedule E must be used to establish the multi-unit rental history, in conjunction with current leases.

9B.13 Treaty Rights/Trust Land Income

Because of treaties with the federal and state governments, tribal members may have non-taxable income derived from sources such as timber sales on trust lands, lease payments from trust lands, or fishing and gathering rights. Such income is not reported through normal tax reporting methods.

Newrez Client must:

- Verify and confirm the amount of non-taxable income (acceptable forms of this documentation include statements from the tribe, the local BIA office, sales receipts, or banking records).
- Any income derived from non-taxable income should be averaged over a 2-year period

9B.14 VA Benefits

- Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided the creditor receives documentation from the VA
- Education benefits used to offset education expenses are not acceptable as a form of income.

10A Appraisal Requirements

Section 184 program follows FHA appraisal guidance in HUD Handbook 4150.2 *Valuation Analysis for Single Family One- to Four- Unit Dwellings* [Appendix C – *Appraisal of Single Family Homes on Native American Lands*] and [Appendix D – *Valuation Protocol*].

Repairs and Improvements

- Repairs or improvements required by the appraiser as essential for property eligibility may be eligible for inclusion in the mortgage.
- The repairs or improvements must either by mandated by the appraiser to meet health and safety requirements or be improvements that are allowable under the Section 184 rehabilitation loan.
- The requirements for rehabilitation are that a minimum of $10,000 in repairs is required in order to include rehabilitation in the financing of a Section 184 loan
- Minor or cosmetic repairs that are not a specified condition in the appraisal are not eligible expenses.

Note: Repairs completed on the property by the borrower are not eligible to be included in the loan

HUD Section 184 Product Summary and Underwriting Guide

Delegated Clients: Lender and Underwriters must be Fully Approved by HUD to offer this product

Newrez overlays are identified with yellow highlighting

11A Escrow Holdback

- If repairs or improvements are addressed on the sales contract or appraised value cannot be completed before loan closing, Newrez must establish an escrow holdback, using Mortgagee's Assurance of Completion form (HUD Form 50118), to ensure eventual completion of all required repairs.
- At closing, collect an amount equal to 1.5 times the cost of the repair or improvement as established by the bid from the contractor.
- Newrez must obtain a final inspection to confirm completion of the repairs and must document payment in full for the repair/improvement.

12A Maximum Loan Amount

- Maximum loan limit for every eligible county is determined by taking the lesser of the national conforming loan limits, or 150 percent of the median home value in that county.
- For national conforming limits, click here.

13A Occupancy

- Primary Residence Only

Revision History	Date
New Product Launch	08.05.2024 v24.1
Updated Header to state: Delegated Clients: Lender and Underwriters must be Fully Approved by HUD to offer this product	08.12.2024 v24.2