

FHA PURCHASE
FHA FIXED RATE
1. PRODUCT DESCRIPTION

- FHA Fixed Rate Mortgage
- 15 to 30 year term in annual increments

Eligible Programs:
 203(b) 1-4 unit

2. ASSET/RESERVES
Premium Pricing

- Prepaid expenses and/or closing costs may be paid with premium pricing

Seller Contributions

- Maximum 6%
- Seller contribution limited to
 - Discount points
 - Buy down funds (if applicable)
 - Seller paid closing costs
 - Prepaid expenses
 - UFMIP (entire)

Gifts

- Acceptable to use toward all down payment, closing costs and prepaids
- Gift funds CANNOT be used as Reserves on manual underwriting.
- Gift must come from a close family member (child, parent, grandparent, spouse, adopted son or daughter, stepson, stepdaughter) or an individual with a long-standing relationship (must be able to document) with the borrower.
- Gift given in the form of cash is not acceptable

Verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below:

For Gifts that will be verified prior to settlement, must obtain one of the following:

- A copy of the donor's canceled check and evidence of deposit into the Borrower's account;
- A copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account; or
- Evidence of the electronic transfer of funds from the donor's account to the Borrower's account.

For Gifts that will be verified at settlement, must obtain one of the following evidencing payment to the settlement agent:

- Evidence of electronic transfer of funds from the donor's account;
- Bank certified check; or
- Cashier's check plus evidence of withdrawal from donor account

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2. ASSET/RESERVES (cont.)	<ul style="list-style-type: none"> Federal, state, local government agencies and FHA Approved non-profit agencies considered by FHA to be an instrumentality of the government may provide funds for down payment, closing costs and prepaid expenses. Must be approved by Stockton Mortgage. Charitable organizations may also provide gift funds/grants to be used for down payment, closing costs and/or prepaid expense. <ul style="list-style-type: none"> Funds derived from these sources cannot be used to payoff borrower's debts. Must be approved by Stockton Mortgage. Obtain Tax Identification Number for the charitable organization Prior to approval, the non-profit's gift documentation must be reviewed to ensure no repayment is required and no liens will be placed on the subject property as a result of the gift <p>Sweat Equity</p> <ul style="list-style-type: none"> Not permitted <p>Reserves</p> <ul style="list-style-type: none"> Total Scorecard Approve <ul style="list-style-type: none"> 1-2 units – None 3-4 units – 3 months PITIA Total Scorecard Refer and manual underwrite (cannot be from a gift) <ul style="list-style-type: none"> 1-2 units – 1 months PITIA 3-4 units – 3 months PITIA
3. ASSUMPTIONS	<p>Permitted – FHA loans are assumable to credit worthy borrower only</p> <p>Stockton Mortgage does not perform creditworthiness reviews of assumption requests for servicing lenders</p>

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4. BORROWER ELIGIBILITY

- Permanent Resident Alien
- See 4000.1 for eligibility
 - Non-Permanent Resident
 - Foreign Nationals Not permitted
 - DACA Visas (C33) permitted

Trusts
 See 4000.1 for eligibility

5. CREDIT

- Stockton offers Total Scorecard Approve/Eligible and Manual Underwriting
- Credit evaluated by TOTAL Scorecard, FHA Credit Standards, subject to clear CAIVRS, LDP and GSA search results (see credit score requirements below)
- Housing (Mortgage/Rental) Payment History (PITIA)
 - Inclusive of all liens regardless of position
 - Applies to all mortgages on all financed properties
- TOTAL Scorecard Approve/Eligible: Rental history verification not required
- Manual UW: Rental history verification required.
 - Max 0X30 in last 12 months and no more than 2x30 in past 24 months for Mortgage, Rent, and Installment debts.
 - Revolving accounts: cannot exceed 0x90 or 2x60 in past 12 months
 - Collections and Charge-off accounts with current balance require evaluation of extenuating circumstances (death of wage earner) for consideration.

Credit Score Requirements

- Regardless of TOTAL Scorecard decision and manual underwrite, minimum of a 580 credit score required.
- No score loans ARE allowed with acceptable Non-Traditional Credit Report or 3 Independently verified credit references as allowed by FHA. Must include rent as credit reference, if applicable.

Derogatory Credit Event Waiting Periods:

- Seasoning of waiting period must be met prior to application.
- Foreclosure – 3 years from the completion date of the foreclosure action.
 - If FHA foreclosure, three year waiting period begins when FHA pays the claim to the lender.
- Deed in Lieu of Foreclosure or Pre-foreclosure Sale or Short Sale – 3 years from the date of the pre-foreclosure sale.
 - If the loan was a FHA, the three year waiting period begins when FHA paid the claim associated with the pre-foreclosure sale.

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<p>5. CREDIT (cont.)</p>	<ul style="list-style-type: none"> • Properties surrendered through BK, follow foreclosure seasoning above. • Bankruptcy Chapter 7 or 11: 2 years from the discharge date. • Bankruptcy Chapter 13 - Total Scorecard Approve/Eligible: 2 years from discharge date. If less than 2 years, the file must be manually downgraded and follow Manual UW guidelines. • Bankruptcy Chapter 13 Manual UW: All the following must be met: <ol style="list-style-type: none"> a) 1 year of the payout period under the bankruptcy has elapsed; and b) the borrower's payment performance has been satisfactory, and all required payments have been made on time, and c) If not already discharged, the borrower must receive written permission from the bankruptcy court to enter into the mortgage transaction. <p>Rent payments When verifying rental history, if the borrower rents from an apartment complex, a verification of rent is allowed. If the landlord is an individual or family member, copies of canceled checks are required.</p>
<p>6. CO-BORROWERS</p>	<p>Co-Borrower and Co-Signer</p> <ul style="list-style-type: none"> • Cannot be the seller, builder, real estate agent, etc. • Income, assets, and debts from all borrowers (including co-borrowers/co-signers) are used in qualifying • Must have a primary residence in the US <p>Non-Occupant Co-Borrower</p> <ul style="list-style-type: none"> • Max LTV 75% if not a family member • Max LTV 75% if parent is seller and non-occupant co-borrower • If LTV exceed 75% for family member, one unit property only
<p>7. EMPLOYMENT/INCOME</p>	<p>For all employment related Income, must verify the Borrower's most recent 2-year history of employment using either the Traditional or Alternative method, and past employment as applicable.</p> <p>Traditional Current Employment Method – Provide ONE of the following:</p> <ul style="list-style-type: none"> • Most recent paystub AND written Verification of Employment covering two years; or • Direct electronic verification of employment by a TPV vendor covering two years <p>Alternative Current Employment Method:</p> <ul style="list-style-type: none"> • Most recent paystub that shows borrowers year-to-date earnings; and • W2s covering previous two years; and • Verbal verification of employment within 10 days prior to the note date of the loan.

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	<p>Past Employment Documentation:</p> <ul style="list-style-type: none"> • If borrower has not been employed with same employer for the previous two years, then must document with one or a combination of the following for the most recent two-year employment history: <ul style="list-style-type: none"> • W2s • Written VOs or direct electronic verification by a TPV vendor • Evidence supporting enrollment in school or the military during the most recent two full years. <p>Variable Income</p> <ul style="list-style-type: none"> • For employees who are paid hourly and whose hours vary, income must be averaged over the previous two years. <ul style="list-style-type: none"> • If an increase in pay can be documented, may use the most recent 12-month average of hours at the current pay rate via a payroll ledger or paystubs covering most recent 12 months. <p>Self-Employed Income</p> <ul style="list-style-type: none"> • Income may be considered if the Borrower has been self-employed for at least two years. • If borrower has been self-employed between one and two years, the income may only be considered as Effective Income if the borrower was previously employed in the same line of work or in a related occupation for at least two years AND a minimum of twelve months S/E income reported on most recent filed tax returns. • Must obtain Borrower's personal and business tax returns for the most recent two years, with all schedules. • A year-to-date Profit and Loss statement and balance sheet is required for if more than a calendar quarter has elapsed since the date of the most recent filed tax return. • A balance sheet is required for self-employed Borrowers unless filing Schedule C income. <p>Form 4506-C</p> <ul style="list-style-type: none"> • Prior to Final Underwriting Decision <ul style="list-style-type: none"> • 4506-C must be obtained for each borrower. Transcripts needed when: <ul style="list-style-type: none"> • tax return transcript(s) when the personal income tax return(s) are used for qualification (self-employment, rental income, etc.); or • W-2 or 1099 transcript(s) for salaried borrowers or for borrowers with other types of income not documented with tax returns (retirement, social security disability, etc.) • At Closing 4506-C must be signed by each borrower
8. ESCROW WAIVERS	Not permitted
9. LIMITATIONS ON OTHER R.E. OWNED	<p>Borrower may own no more than one FHA loan with maximum financing unless borrower qualifies for exceptions as per 4000.1</p> <p>Exceptions to the FHA Policy limiting the Number of Mortgages per borrower:</p>

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Relocation

- A Borrower may be eligible to obtain another FHA insured loan without being required to sell an existing Property covered by FHA insured mortgage if the Borrower is: Relocating or has relocated for an employment related reason; AND
- Establishing or has established a new Principal Residence in an area more than 100 miles from the current Primary residence.
NOTE: Must be 100 miles or greater; 99.99 miles or less is not sufficient to meet this requirement.

Increase in Family Size

- A Borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that: the Borrower has had an increase in legal dependents and the Property now fails to meet the family needs; AND
- The LTV ratio on the current Primary residence is equal to or less than 75% or is paid down to that amount, based on the outstanding mortgage balance and a current residential appraisal. NOTE: Appraisal must be completed by a HUD appraiser.

Vacating a jointly owned property

- A Borrower may be eligible for another FHA-insured Mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower

Non-Occupying Co-Borrower

- A non-occupying co-Borrower on an existing FHA insured Mortgage may qualify for another FHA-insured Mortgage on a new Property to be their own Principal Residence.
- A Borrower with an existing FHA-insured Mortgage on their own Principal Residence may qualify as a non-occupying co-Borrower on other FHA-insured Mortgages.

10. LOAN AMOUNT

	Units	Maximum Loan Amount	High Cost Maximum Loan Amount
		Continental US	Continental US
Lowest Maximum (Floor)	1	\$498,257	\$1,149,825
	2	\$637,950	\$1,472,250
	3	\$771,125	\$1,779,525
	4	\$958,350	\$2,211,600

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

• **3-4 Unit Properties**

- Loan amount must meet self-sufficiency test
 - The PITIA divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent for three- to four-unit Properties.
 - Calculation: Net Self-Sufficiency Rental Income is calculated by using the Appraiser’s estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser’s estimate for vacancies and maintenance, or 25 percent of the fair market rent.
- The net rental income must be equal to or greater than the PITIA payment

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Non-Occupying Borrower

- Maximum LTV is 75% with the following exceptions:
- LTV can be increased to a maximum of 96.5% if the Borrowers are Family Members, provided the transaction does not involve:
 - a Family Member selling to a Family Member who will be a non-occupying co-Borrower; or
 - a transaction on a two- to four-unit Property

Identity of Interest Transactions

- Maximum LTV is 85% with the following exceptions:
 - Purchasing a home that was the primary residence of a family member
 - A property owned by a family member in which the borrower has been a tenant for at least six months immediately predating the sales contact. A lease or other written evidence to verify occupancy is required.
 - The borrower is a current tenant and has leased the property for at least six months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required. Also, in the case of a tenant purchase, the file must contain an appraiser estimate of fair market rents to verify that the borrower paid rent within 10 percent of the fair market rent.

11. LTV/CLTV LIMITATIONS

Units	Base LTV	CLTV with Sec Fin From Govt Agency/Non-Profit Considered as instrumentality of govt.	CLTV with Sec Fin from a Non-Profit Govt Agency not considered as instrumentality of govt.
Purchase			
1-4	96.5%	100% (of cost to acquire)	96.5%
Non Arms Length Transaction (Identity of Interest)			
1-4	85%	85% (lesser of AV or SP)	85% (lesser of AV or SP)

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12. MORTGAGE INSURANCE

Mortgage insurance is required for all loans

- See the attached chart for details on Upfront MIP (UFMIP) and annual MIP

MORTGAGE INSURANCE PREMIUM FACTORS CASE NUMBERS ASSIGNED ON OR AFTER 3/20/2023				
LTV Loan Term	Base Loan Amount <= \$726,200		Base Loan Amount > \$726,200	
	UFMIP	Monthly	UFMIP	Monthly
>95% LTV Greater than 15 years	1.75%	55 bps	1.75%	75 bps
<=95% LTV Greater than 15 years	1.75%	50 bps	1.75%	70 bps
> 90% LTV Less than or equal to 15 years	1.75%	40 bps	1.75%	65 bps
> 78% and <=90% LTV Less than or equal to 15 years	1.75%	15 bps	1.75%	40 bps
<=78% LTV Less than or equal to 15 years	1.75%	15 bps	1.75%	15 bps

Duration of Annual MIP based upon amortization term and LTV ratio at origination

- LTV <= 90% 11 years
- LTV > 90% Loan Term

13. OCCUPANCY

Primary Residence

14. PROPERTY

Eligible Property Types

- 1-4 units
- 1 unit PUD
- Condo
 - FHA approved Condo list
 - FHA Spot Approvals allowed with \$495 upfront payment from borrower / TPO to Condo vendor
- Site Condos do not require project approval

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14. PROPERTY (cont.)

- Modular, Precut, Panelized Housing
 - Manufactured Homes (double wide only)
 - Existing Construction
 - Must be permanently installed on a site for one year or more prior to date of application
 - If the perimeter enclosure is non-load bearing skirting comprised of lightweight material, the entire surface area of the skirting must be permanently attached to backing made of concrete, masonry, treated wood or a product with similar strength and durability.
 - Satisfactory Structural Engineers report evidencing that the home is structurally sound and has been affixed permanently according to HUD PFGMH guidelines
 - New Construction – purchase/refinance of completed new construction homes
 - Eligible only if borrower is second purchaser of the property and seller is not the builder-contractor or manufactured housing dealer who installed MH unit on site
 - Must be a non-arms length transaction
 - The manufactured home must be classified as real property as evidenced through tax certificates or title policy to validate that both land and MH unit is deeded as one.
 - ALTA 7 or state specific equivalent Title Endorsement required
 - Manufactured housing PUD units – detached only
- Ineligible Property Types**
- 2-4 unit PUD
 - Condo Hotel
 - Singlewide Manufactured Homes
 - Co-op
 - Properties located within designated Coastal Barrier Resource System (CBRS) areas
 - Leasehold Estates
- Appraisal Effective, Second Appraisals, and Expiration Dates**
- Appraisal Effective Date cannot be before the FHA case number assignment date unless:
 - the Mortgagee certifies, via the certification field in the Appraisal Logging Screen in FHAC,
 - that the appraisal was ordered for conventional lending or government-guaranteed loan purposes; and
 - was performed by a FHA Roster Appraiser

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14. PROPERTY (cont.)
Second Appraisals may only be ordered under the following circumstances:

- Original Lender:
 - Property flipping, when applicable
 - The DE underwriter determines the first appraisal is materially deficient (may not be ordered to achieve an increase in value for the property and/or the elimination or reduction of deficiencies and/or repairs required); or
 - The Appraiser is unable or uncooperative in resolving the deficiency.
 - The deficiency must be fully documented along with the status of the appraisal in the mortgage file.
 - The cost for the second appraisal may NOT be passed along to the Borrower.
- Secondary Lender / Transferred Appraisal:
 - Property flipping, when applicable
 - The first appraisal contains deficiencies as determined by the DE underwriter for the Second Lender;
 - The Appraiser performing the first appraisal is prohibited from performing appraisals for the Second Lender;
 - The original Lender fails to provide a copy of the appraisal to the Second Lender in a timely manner, AND the failure would cause a delay in closing and harm to the Borrower, including loss of interest rate lock, violation of purchase contract deadline, occurrence of foreclosure proceedings and imposition of late fees.
 - The cost for the second appraisal may NOT be passed along to the Borrower.

Appraisal Expiration Date

- Appraisals are valid for 180 days
- May be extended for an additional 180 days if:
 - the Final Recertification Inspection is performed before the initial appraisal expires, **and**;
 - Underwriting has approved the appraisal and logged it in FHA Connection.

Septic Inspections and Well Water Testing
Septic Inspections

- New Construction: Required if county requires.
 - Copy of Health Department approval and Permit;
- Existing Construction: Not required unless Appraiser has reported deficiencies and recommends Septic inspection in appraisal report

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Well Water Testing

- New Construction: Required
- Copy of Health Department approval and Permit
- Existing Construction:
 - where an Appraiser has reported deficiencies with a well or the well water;
 - where water is reported to be unsafe or known to be unsafe;
 - located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes; or
 - where the distance between the well and septic system is less than 100 feet.
- All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

If the property has both a septic tank and a well, the following distances must be certified by the appraiser, surveyor, professional in the field or the local jurisdiction.

Individual Water Supply System for Minimum Property Requirements for Existing Construction*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Drain field/100 feet
4	Septic tank drain field reduced to 75 feet if allowed by local authority
5	If the subject Property line is adjacent to residential Property then local well distance requirements prevail. If the subject Property is adjacent to nonresidential Property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
* distance requirements of local authority prevail if greater than stated above	

15. PREPAYMENT PENALTY	Not permitted			
16. QUALIFYING RATE	Qualify using the initial note rate			
17. QUALIFYING RATIOS	AUS Decision	Minimum Credit Score	Maximum Qualifying Guidelines	Acceptable Compensating Factors
	Approve	580	Follow AUS	No compensating factors required

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	Refer and Manual Underwrite	580 or No Credit Score	31% / 43%	No compensating factors required No Credit score is priced as a 620 score
	Refer and Manual Underwrite	580 or above	37% / 47%	One of the following: <ul style="list-style-type: none"> • Verified and documented cash Reserve: <ul style="list-style-type: none"> • Minimum 3 months PITIA for 1-2 units or 6 months PITIA for 3-4 units; • Minimal increase in housing payment: <ul style="list-style-type: none"> • New total monthly mortgage payment not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less, and 1 x 30 in last 12-month housing history (cash out 0 x 30 in last 12 months); or • Residual income.
	Refer and Manual Underwrite	580 or above	40% / 40%	Borrower with no discretionary debt
	Refer and Manual Underwrite	580 or above	40% / 50%	Two of the following: <ul style="list-style-type: none"> • Verified and documented cash Reserve: <ul style="list-style-type: none"> • Minimum 3 months PITIA for 1-2 units or 6 months PITIA for 3-4 units; • Minimal increase in housing payment: <ul style="list-style-type: none"> • New total monthly mortgage payment not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less, and 1 x 30 in last 12-month housing history (cash out 0 x 30 in last 12 months); or • Significant additional income not reflected in Effective Income; and/or • Residual income.

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18. SECONDARY FINANCING

- May be used for down payment, closing costs, and prepaids from the following sources:
- Federal, state, or local governmental agencies
- FHA approved non-profit agencies that are considered instrumentalities of government
- FHA approved non-profit agencies NOT considered instrumentalities of government are acceptable provided the borrower makes a cash investment of at least 3.5% of the sales price. May be used for closing costs and prepaids only
- Family member
- Must be Stockton Mortgage approved
- See HUD Handbook 4000.1

Stockton Mortgage cannot provide secondary financing

**19. SPECIAL REQUIREMENTS/
RESTRICTIONS**

HUD REO Purchase (standard 96.5% LTV)

- Maximum base loan amount is calculated using the lesser of the contract sales price, appraised value or initial list price
FHA maximum mortgage amount calculation to be documented using FHA Maximum Mortgage Calculation Worksheet or similar summary of component costs and credits to calculate final mortgage amount

Property Flipping

- Properties resold 90 days or fewer following the date of acquisition by the seller are not eligible (measured from date of settlement of seller's purchase to date of execution of the sales contract by all parties). If the property resold less than 180 days and value has increased by 100% or more, a second appraisal is required.

Ineligible

- The Energy Efficient Mortgage Program
- Mortgage Credit Certificate (MCC)/Section 8 Vouchers

CAIVRS, LDP and GSA Search

- If the name of any party to the transaction appears on any of the lists below, the application is not eligible for mortgage insurance (An exception may be made when a seller appears on the LDP list and the property being sold is the seller's principal residence)
 - CAIVRS
 - CAIVRS for all borrower on the transaction: Borrowers, co-borrowers and so-signers, if applicable. CAIVRS must be cleared
 - Limited Denials of Participation (LDP) List
 - Examine/Search the list for all parties to the transaction: all borrowers, sellers, listing and selling real estate agents, and Loan Officers. The appraiser, termite company, and all licensed professionals contracted to provide mechanical certifications such as heating, plumbing, air conditioning, roofing and electrical companies should also be searched
 - Government Services Administration's (GSA) Lists of Parties Excluded from Procurement or Non-procurement Programs
 - Examine/Search the list for all parties to the transaction: all borrowers, sellers, listing and selling real estate agents, and Loan Officers.

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19. SPECIAL REQUIREMENTS/ RESTRICTIONS (cont.)	The appraiser, termite company, and all licensed professionals contracted to provide mechanical certifications such as heating, plumbing, air conditioning, roofing and electrical companies should also be searched
20. TEMPORARY BUYDOWNS	Max 2/1 buy down paid for by seller.
21. UNDERWRITING	<ul style="list-style-type: none"> TOTAL Scorecard Approve may follow documentation requirements See Credit section for additional restrictions TOTAL Scorecard Refer and manual underwrite – Must meet manual underwriting guidelines <p>Manual Downgrade from Approve to Refer</p> <p>A manual downgrade from a TOTAL Scorecard Approve decision to a Refer/Manual Underwrite is required if additional information not considered by TOTAL Scorecard affects the overall insurability or eligibility of the mortgage.</p> <p>A loan must be downgraded and manually underwritten on any Mortgage that received an Accept recommendation if:</p> <ul style="list-style-type: none"> the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard; additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage; the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts; the date of the Borrower’s bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment; the case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale); the case number assignment date is within three years of the date of the transfer of title through a foreclosure sale; the case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure; the Mortgage Payment history, for any mortgage trade line reported on the credit report used to score the application, requires a downgrade as defined in Housing Obligations/Mortgage Payment History; the Borrower has undisclosed mortgage debt that requires a downgrade; or
22. GEOGRAPHICAL RESTRICTIONS	AL, FL, GA, IL, IN, KY, MI, MS, NC, OH, PA, SC, TN, VA, WV

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