

Issue Date: 5/19/2016

Effective Date: 6/1/2016

No: 2015.5.2

FHA Risk Requirement Updates

Summary: ResMac's policy has always been to provide high-quality FHA loans to assist our borrowers in obtaining the American dream of homeownership. We constantly monitor our FHA loan performance to determine the root cause of any deficiencies and to identify potential internal and external control weaknesses and adjust our policies to ensure the quality of our FHA loans are kept to the highest standards. It is our priority to protect our borrower(s), FHA, and our company against any unacceptable risks. We have recently seen an increase in delinquent FHA loans and after a careful review of our policies we will be implementing the following overlays to our FHA programs.

FHA Loans with credit scores < 640;

- The maximum allowable DTI is 33/50%. This requirement can only be exceeded if two compensating factors are present. (See table A on page 2)
- Borrower may not pay-off debt to qualify after the application date. Debt may be paid-off but not as a determining factor to meet 50% DTI.
- Borrower(s) must have 1 months PITIA in reserve, gift funds are not allowed to meet this requirement.
- Non-taxable income may not be grossed-up to meet the DTI requirement.
- Gifts are only acceptable IF borrower(s) have 2 months of liquid reserves.
- Housing history must be provided which includes documentation of borrowers living rent-free as currently required by FHA manual underwrite.
 - Payment shock not to exceed 150%.
 - Payment shock does not apply if living rent-free.
- Credit profile must include at least 3 trade lines rated at least 12 months. These may not include deferred accounts or authorized user accounts unless 12 months of documented history of the borrower making payments is provided. Acceptable non-traditional tradelines are outlined in Table B on page 2.
- No employment gap > 60 days in the 12 months prior to case assignment.
- Rental income may not be utilized to qualify if borrower(s) are first time landlords.
- If borrower(s) have any lates, excluding medical collections, within the 12 months prior to case assignment the file must include satisfactorily documented extenuating circumstances AND a letter of explanation from the borrower(s).
- 3-4 Unit properties are not permitted.

Issue Date: 5/19/2016

Effective Date: 6/1/2016

No: 2015.5.2

FHA Risk Requirement Updates (cont.)

Table A

Compensating Factors
Additional 2 months of liquid reserves
4 months of non-liquid reserves
Residual income of 120%
Base Income only being used to qualify
Job stability of ≥ 2 years
Payment shock of 120% or less

Table B

Acceptable Non-Traditional Tradelines
Institutional VOR or 12 months cancelled checks supported by lease
Utility Company Reference-water, gas, electric, cable
Internet Service
Insurance premiums – no payroll deduction
Child Care Providers (Institutional Only)
School Tuition
12-month documented savings history with, at minimum, quarterly deposits
12-month payment history for which borrower is an authorized user on an account
Personal Loan supported by repayment terms in writing and cancelled checks