

WEBSTER BANK'S FHA UNDERWRITING MATRIX

BORROWER ELIGIBILITY

PRIMARY BORROWERS:

- Borrower must have a Social Security Number and must be able to document a satisfactory 2-year history of credit, income and assets.
- Permanent Resident Aliens are eligible under the same terms as U.S. Citizens. The Borrower must supply satisfactory evidence of the Green Card information from INS.
- Non-Permanent Resident Aliens may be eligible if satisfactory evidence of legal residency and ability to work in the U.S. is documented.
 1. Borrower must be the primary resident only.
 2. Borrower must have a social security number and a satisfactory 2-year credit profile (income, assets, credit).

OCCUPYING CO-BORROWERS:

- Co-Borrower must take title to the property and sign the Note and Mortgage instruments.
- Co-Borrower must complete a full loan (1003) application and a full underwrite of income, credit and assets is required. The Co-Borrower will be qualified the same as the primary Borrower.
- The Co-Borrower CANNOT be an individual who is a party to the purchase transaction (seller, realtor, builder, etcetera).

NON-OCCUPYING CO-BORROWERS:

- A Co-Borrower who WILL NOT OCCUPY the subject property, but who is being added to the loan application to strengthen the file is permitted. Maximum FHA financing is available under the following criteria:
 1. The Co-Borrower must be a close family member or demonstrate a "long-standing" family relationship with the primary (occupying) Borrower. (If no such relationship can be verified, the LTV is limited to 75%.)
 2. The subject property is **1 unit** (single family detached or PUD or an approved condo unit).
 3. Co-Borrower must have a principal residence within the USA.
 4. A full credit underwriting analysis must be completed for the Non-Occupant Co-Borrower. The Co-Borrower's income, assets and debt will be included in the final loan information and will be considered equally with that of the Borrower.

GIFTS AND GRANTS

GIFTS:

- Gifts for both the down payment and the closing expenses may come from acceptable sources such as: family member, close (family type) friend, Borrower's employer or labor union, a charitable institution, or a governmental agency or public entity that has a FHA-accepted homeownership assistance program.
- **100% of the funds for down payment and all closing expenses may come from an acceptable gift or grant program.** These funds must be THOROUGHLY documented to show that no repayment is expected and the gift donor(s) will NOT place a lien on the subject property. **NOTE:** Gifts MAY NOT BE USED to meet the Borrower's mandatory 3 months PITI reserves requirement for 3 and 4 unit purchases.
- Gifts MAY NOT BE USED to "beef up" a Borrower's asset accounts to show reserves remaining after closing THAT WOULD ALTER THE DU OR LP findings from an "Approve Eligible or Accept" status to a "Refer" or "Ineligible" status. The Underwriter must review the AUS findings to determine whether or not any gift amount is considered in the reserves reviewed by the AUS system. The gift amount must be deducted from the total reserves shown on the AUS findings and the loan must be re-run through AUS to provide the true picture of the Borrower's assets and obtain

WEBSTER BANK'S FHA UNDERWRITING MATRIX

a clear approval.

1. An original gift letter(s) is/are required. The letter must be executed in a HUD-approved format stating there is no repayment required and stating that no gift donor is tied to the loan transaction.
2. The transfer of funds from the gift donor to the Borrower is required. The Lender must document the transfer of gift funds from the donor's account to the Borrower's bank account by obtaining a copy of the canceled check or other satisfactory withdrawal document that shows the gift is leaving the donor's account and is being deposited into the Borrower's account. **(NOTE:** If the gift amount is being received at the closing table, a certified check from the donor and a copy of the withdrawal receipt from the donor's bank account is required. The closing agent is to make copies of these documents and forward to the Lender in the closing package.)
3. If the gift donor borrowed funds to provide the gift, the donor must provide acceptable documentation that the funds were not borrowed from a party to the transaction or the Mortgage Lender. "Cash on hand" from the donor is NOT acceptable.

GRANTS:

SECONDARY FINANCING

- The (acceptable) granting agency must provide satisfactory written documentation stating the terms of the gift donation to the Borrower. The funds must be received prior to or at closing.
- 2nd mortgages may provide down payment and closing cost assistance. The terms of the 2nd mortgage must be fully documented and must meet FHA requirements. The agency or individual providing the funds for the 2nd mortgage must meet FHA guidelines for down payment assistance. (See Second Mortgage requirements – Subordinate Financing Section.)

BROKER CREDIT

- The mortgage Broker may assist the Borrower in paying closing expenses by crediting a portion of his fees at the closing. The Borrower's required investment (3% on a purchase) must be met before any Broker credit is given at the closing. The Broker credit must be clearly identified on the HUD-1 statement and there is no cash back to Borrower allowed at closing.

SELLER CONTRIBUTION (LIMITATIONS)

- Seller may contribute up to 6% of the price/value of subject property (whichever is less) without considering LTV.
- Seller contributions must be clearly identified on the purchase contract, the loan documents and the closing documents. The HUD-1 statement must clearly itemize the fees paid by the Seller.
- The total amount paid by the Seller MAY NOT EXCEED ACTUAL EXPENSES that would result in cash back to the Borrower at the closing.
- Any interested 3rd party contributions/concessions must be addressed on the appraisal and appropriate adjustments must be made. A copy of the sales contract must be provided to the appraiser.

INCOME GUIDELINES

- HUD does not set a minimum length of time that a Borrower must have held a job position to be eligible for a FHA loan. The Lender is responsible for documenting the Borrower's employment history for the most recent 2 years. If a portion of this 2-year period includes schooling, this must be documented, and the full job history will be analyzed.
- Borrower's income must be verified as "expected to continue" for at least the first 3 years of the mortgage. This rule applies **FOR ALL TYPES OF INCOME** including for: wage income, disability, retirement, social security, self-employment, child support and alimony and self employed income. If it is determined during the processing of the loan that the Borrower's

WEBSTER BANK'S FHA UNDERWRITING MATRIX

employment and income status is subject to a negative change, the file may be subject to a counter-offer or a denial.

- Overall job history will be analyzed for both career pathing, job changes for advancement and or wage increases and motivation. The Borrower must document the circumstances for the changes if the file is manually underwritten.
- **Pending Retirement and/or Reduction In Income:** The effective income to be used to qualify must be the (**reduced**) retirement (or other type) of benefits that will be taking effect soon.
- **Overtime and/or Bonus Income:** Both may be used to qualify. An average of the most recent 2 years (per W-2's) and current YTD gross income must be averaged. The income amount to be used must be the **lesser** of current YTD or the 2-year average.
- **Part Time Income From a 2nd Job:** A 2nd job may be used for income if the Borrower shows a 2-year (or more) history of holding down the extra job. An average over the 2 years plus YTD gross must be used to qualify.
- **Commission Income:** This income must be averaged over the most recent 2-year history by analyzing the Borrower's tax returns. Current pay-stubs must also document the fact that commission is being currently received by the Borrower. In addition, when reviewing the tax returns, any un-reimbursed business expenses must be subtracted from the Borrower's income before the 2-year average is computed. See further information in the section regarding self-employed Borrowers.
- **Notes Receivable:** A copy of the note must document the amount and length of payment to be received by the Borrower. Borrower must also provide copies of tax returns or cancelled checks to show receipt of such income for at least the most current past 12 months.
- **Interest & Dividends:** This income may be used by averaging a 2-year history of income received on the most current tax returns. Any funds for the loan transaction that are derived from the source(s) providing the interest or dividend income **MUST BE SUBTRACTED** before projecting future income from these same sources.
- **VA or Social Security Income:** The government agency providing the income must provide written verification of the payment. The current amount shown on the award statement may be used, but satisfactory proof of a 3-year continuance must be documented.
- **Government Assistance Programs:** Income received from welfare, unemployment, workman's compensation, foster children care, etc. may be used only if the government agency provides satisfactory documentation that the income will continue for at least 3 years. If the income **CANNOT** be verified as continuing during the required period, the income may **ONLY** be considered as a compensating factor for higher ratios than 29/41 standard.
NOTE: To use unemployment income, a 2-year average of receipt must be used to qualify. There must be a satisfactory assurance of continuance due to the nature of the job.
- **Rental Income:** Rent received for properties owned by the Borrower may be used subject to proper verification on tax returns and/or leases. For REO properties owned by the Borrower, the most recent 2 years tax returns must be obtained, and an average of the Schedule E income must be documented. (**NOTE:** If the most recent tax return shows a greater loss than the 2 year average, the lesser income is to be used.)
 1. Depreciation may be added back into income and the positive income is to be added to Borrower's wage income, but any negative income is to be treated as a recurring debt.
 2. The 1003 application must list each property owned by Borrower and the tax returns must match the 1003 information. The Lender must verify the total number of properties that are currently owned by the Borrower

WEBSTER BANK'S FHA UNDERWRITING MATRIX

and verify the total number of FHA mortgages (if any). **If six (6) or more UNITS (not properties) are owned by the Borrower IN THE SAME GENERAL 2 BLOCK AREA, a map disclosing the locations of the properties must be submitted to evidence the compliance with HUD's limitation of 7 units rule.**

3. Any properties recently sold must be verified as sold by obtaining the HUD-1 closing statement from the Borrower. Properties recently purchased may not show on the tax return and current leases (of 1 year term or more) must be obtained from the Borrower to verify current income being received. The income from the lease must be reduced by a 25% vacancy factor before calculating final income to be used.
 4. Rental income to be used on the PURCHASE of a (new) Multi family (2-4) unit property will be determined by the FHA appraiser who will verify the current market rent applicable to the property. Lender is to use 85% of the appraiser's rent forecast as the qualifying income. (See other requirements listed in separate section for 3 and 4 unit properties).
- **Auto Allowance & Expense Account Reimbursement:** Only the amount by which the Borrower's allowance or reimbursement EXCEEDS the actual expenses MAY BE USED AS INCOME.
 1. The Borrower must provide the most recent 2 years tax returns and Form 2106 from each year must be analyzed. If the income exceeds the expenses, a 2-year average of this income may be added to Borrower's wage income to qualify. If a loss occurs, the loss is to be treated as a long-term debt.
 2. If the Borrower reports Mileage income, the standard IRS allowance must be used to qualify. **NOTE:** The Borrower's monthly vehicle payment(s) MUST BE TREATED AS LONG TERM DEBT. THE PAYMENTS MAY **NOT** BE OFFSET BY THE AUTO ALLOWANCE OR REIMBURSEMENT.
 - **Trust Income:** Income from Trusts may be used if the guaranteed, constant payment can be documented as continuing for 3 years or more. Documentation requirements include a copy of the Trust Agreement, the trustees' statement confirming the current status of the account (to confirm amount, frequency of payment distribution and the length the payments will continue). **NOTE:** Any funds used for the loan transaction must be DEDUCTED from the balance of the trust account when calculating continuing income.
 - **Non-Taxable Income:** Certain types of disability or public assistance payments are NOT taxable to the Federal Government. The amount of **tax savings** attributed to this type of income may be added to the monthly income amount for qualifying purposes. The percentage of income that may be used MAY NOT EXCEED THE APPROPRIATE TAX RATE FOR THE SAME INCOME AMOUNT FOR THE INDIVIDUAL BORROWER. This addition of tax savings to income is commonly referred to as "Grossing Up Income." Currently, the amount of "gross up" allowable by HUD is 15%. The Lender is responsible for justifying the amount of gross up and ensuring the income is TRULY NON-TAXABLE.
 - **Borrowers Employed By A Family Business:** The standard verification via pay-stubs and VOE's is required. In addition, the business must verify whether or not the Borrower holds any ownership interest in the company. The accountant for the family business may provide a written statement that verifies ownership within the company. At the Underwriter's discretion, a review of the Borrower's tax returns and/or the company tax returns may be warranted.

SELF EMPLOYED BORROWERS:

- A Borrower with a **25% or greater ownership interest** in a business is considered self-employed.

WEBSTER BANK'S FHA UNDERWRITING MATRIX

- Income from self-employment may be used to qualify providing it is considered stable and continuing. Typically, FHA requires a 2-year history (verified by a full 2 years of income tax returns) of self-employment to consider the income as stable.
- **Documentation requirements:**
 1. Signed & dated individual tax returns (with all schedules - including W-2 forms and 1099 forms) for the most recent 2 year period is required. The returns must be signed & dated by the Borrower(s).
 2. Signed copies of business income tax returns for the most recent 2 years (with all schedules) is also required if the business is a Corporation, an "S" Corporation, or a Partnership.
 3. A year to date Profit and Loss statement (P&L) and balance sheet, which is completed and executed by the Borrower.
 4. A business credit report – if the business is a Corporation or S Corporation.
- **ANALYSIS OF INCOME:**
 1. The earnings trend must be averaged over the previous 2 years. The tax return information will be analyzed along with the year to date income information. Higher year to date income will NOT be used. The average of the past 2 years is the true picture of income and expenses and MUST BE USED.
 2. The financial strength of the business and the economic forecast for the type of business must be analyzed. ANNUAL EARNINGS THAT SHOW STABLE OR INCREASING INCOME ARE ACCEPTABLE. Earnings that are declining are to be considered unacceptable.
- **TAX RETURN ANALYSIS:**
 - A. INDIVIDUAL 1040 RETURN:
 1. **Schedule C:** The Borrower's business is a SOLE PROPRIETORSHIP. The Borrower's personal and business liability are the same. Depreciation and depletion may be added back to Adjusted Gross Income. (Referred to as "AGI" for remainder of section). (**NOTE:** Any W-2 wage income derived from someone other than the Borrower must be DEDUCTED from the Adjusted gross income on the 1040).
 2. **Schedule E:** Income derived from rents, royalties, partnerships, etc. will be shown on this form. Depreciation may be added back into AGI.
 3. **Schedule D:** Capital Gain or loss: Generally, this is a one-time (non-recurring) transaction and should not be used in determining income. However, if the business constantly has a turnover of assets that result in a gain or loss of income, ANY POSITIVE INCOME may be used provided a review of 3 years of current tax returns shows the positive income figure. If this is documented, the average income for the 3 years may be used. (And any loss shown in the same way is averaged, and the average is to be deducted from Borrower's income used to qualify.)
 4. **Schedule B:** Interest and Dividend Income: This income (whether it is taxable or tax-exempt) may be added back to the adjusted gross income ONLY if it has been received for the past 2 years and can be expected to continue for at least 3 more years.
 5. **Other schedules:** Depreciation shown on Schedule F may be added back into AGI. IRA distributions, Pensions & Annuities and Social Security benefits may have the NON-TAXABLE PORTION added to AGI as long as the benefit is documented to continue for at least 3 years. Other adjustments to income such as KEOGH, IRA, HEALTH INSURANCE DEDUCTIONS, and ALIMONY PAYMENTS may be added back into AGI. Employee business expenses on Form 2106 are to be DEDUCTED from the AGI.
 - B. CORPORATE TAX RETURNS (Form 1120):
 1. Corporations are owned by their stockholders and any compensation to

WEBSTER BANK'S FHA UNDERWRITING MATRIX

owners is shown on both the corporation's tax return and the owner's individual return. If the Borrower's percentage of ownership in the corporation is not shown on the corporate return, this information must be obtained from the accountant for the corporation. The accountant must also verify that the Borrower has access to the funds.

2. First, the Adjusted Business Income for the corporation is determined and then it is multiplied by the percentage of the Borrower's ownership.
3. To analyze the corporate returns, the following adjustments must be made to the adjusted business income:
 - a. Depreciation and Depletion: Add back to "after tax" income.
 - b. Taxable income: This is the corporation's net income before Federal Income Taxes are calculated/paid. The amount of the tax must be DEDUCTED from the taxable income.
 - c. Fiscal year versus calendar year: If the corporation operates on their own fiscal year, which does not match the actual calendar year, the adjustment must be made to relate to correct percentage of income used.
 - d. Cash withdrawals: If the Borrower withdraws cash from the company for personal use, the negative impact on the ability to operate the business must be verified.
- C. **"S" CORPORATIONS: (IRS FORM 1120S):**
 1. This business passes on gains or losses in the company income to the owners (stockholders) in proportion to their individual percentage ownership.
 2. Income from the corporation to the owner (Borrower) is reported on a W-2 and the Borrower pays taxes on his individual 1040 form. (Compensation to Officers from the 1120S is transferred to the Borrower's 1040 form).
 3. Depreciation and Depletion may be added back to income - in the degree of percentage of ownership interest in the business.
 4. Debts to be paid by the corporation within 1 year **MUST BE CONSIDERED**. The Borrower's percentage of obligation must be calculated, and reduced from income.
 5. If the Borrower withdraws cash from the business, any negative effect on the business must be analyzed. It must be determined that the business has sufficient operating income (cash) to continue at a stable rate.
- D. **PARTNERSHIPS: (IRS Form 1065):**
 1. A partnership is formed when 2 or more individuals form a business and shares the profits, losses and responsibility of the company.
 2. Each partner pays taxes on their proportionate share of net partnership income.
 3. The Form 1065 must be analyzed to ascertain the viability of the business. The Borrower's share of the income will be carried over the to Borrower's 1040 on the Schedule E.
 4. Depreciation and depletion may be added back to income - using the Borrower's percentage of ownership.
 5. Obligations/debts due within 1 year must be deducted from the Borrower's share of the business income.
 6. Withdrawals of cash by the Borrower must be verified to have no negative impact on the company's future ability to operate.

LIABILITIES AND CREDIT GUIDELINES

- The Borrower's most recent 2-year credit history will receive the closest scrutiny, whether by AUS or an FHA Underwriter. The Borrower's overall performance in paying debts as agreed will be evaluated. If the file is approved by AUS, the findings may be utilized as conditions. For manual underwriting, the FHA Underwriter must consider the risk and compensating factors to override an AUS Referral, or underwrite a Borrower who has no

WEBSTER BANK'S FHA UNDERWRITING MATRIX

- credit profile yet established.
- If a Borrower has no established credit history, the Lender MUST develop a credit profile from alternative sources such as rent, utility bills, rental payments, etc. The basic hierarchy of credit evaluation is the manner of payments made on:
 1. Rental payments (direct verification or cancelled checks to cover the past 12 months with no lates).
 2. Utilities - Verify the same as rental payments.
 3. Installment debts (verify no lates in past 12 months). Count the monthly payment of all debt with 10 months or more remaining in the debt ratio. If the debt will be paid off earlier than 10 months, but the monthly payment exceeds 2% of the gross monthly income of the Borrower, the ratio should reflect this debt and be analyzed accordingly in the credit decision.
 4. Revolving accounts (including store accts). Evaluate case by case. Use the monthly payment on the credit report if shown, or obtain a copy of the billing statement if the Borrower pays less than the "rule of thumb" 5% of balance per month.
 - **Undisclosed debt(s):** Borrower must address any debt revealed on the credit report that was not disclosed on his/her application. All inquiries on the credit report that have occurred within the most recent 90 days MUST BE EXPLAINED AND IF NEW CREDIT IS OPENED, MUST BE VERIFIED. Newly opened debt must be verified to NOT be related to the Purchase (loan) transaction.
 - **Alimony:** Because of the tax consequences of alimony payments, it is acceptable to deduct the amount of the monthly alimony payment from the Borrower's income rather than include the payment as a debt in the ratio.
 - **Child Support:** Verify the amount of the support to be paid by the Borrower by obtaining a copy of the Support Order (through the court system or another legal avenue). Verify how long the support will remain in payment by documenting the age of the child(ren). Consider child support (and alimony, if desired) as recurring installment debt. Any payment remaining for 10 months or more (or over 2% of the gross monthly income of the Borrower) MUST BE INCLUDED IN THE DEBT RATIO.
 - **Contingent Liability:** Contingent liability exists when our Borrower will be held responsible for payment of a debt should another party jointly obligated for the payment default on said payment. Unless the Borrower can provide conclusive evidence that there is NO POSSIBILITY that the debt holder will pursue debt collection against him should the other party default, the following rule applies:
 1. For **BOTH** Mortgages and other debt, if the Borrower remains obligated for the debt payment, and **has NOT been released from payment liability**, the Primary Obligor (the other "co-signing" party) MUST PROVIDE SATISFACTORY WRITTEN DOCUMENTATION THAT HE HAS BEEN MAKING 100% OF THE PAYMENTS - ALL PAID ON TIME - WITHOUT ANY LATES OCCURRING - FOR AT LEAST THE PAST 12 MONTHS. (If the other party cannot document timely payment on the account, then the monthly payment MUST BE INCLUDED IN THE BORROWER'S DEBT RATIO.)
 - **Projected Obligations:** Debt payment(s) that are scheduled to begin repayment within **12 months of the first payment** of the mortgage **MUST BE CONSIDERED IN THE DEBT RATIO**. (Example, deferred student loans, balloon payments, etc.). The Lender must enter the expected (or actual, if known) monthly payment, and include in the debt ratio.
 - **Debts NOT Included In Ratio:** Unlike other loan types, FHA **DOES NOT** consider 401k loan repayments as a monthly debt in the ratio. Also NOT included: union dues, childcare, commuting costs, voluntary deductions

WEBSTER BANK'S FHA UNDERWRITING MATRIX

through payroll.

- **Collections:** FHA does NOT arbitrarily require that all collections be paid off prior to closing. The reasons for the collections and the way in which the Borrower has dealt with the accounts will be evaluated on a case-by-case basis. **Webster Bank has established the guideline that ALL collections will be paid off prior to closing for MANUALLY underwritten loans.** For loans that have obtained an AUS Approval, the findings will determine the way in which the open collections are examined and resolved.
- **Open Judgments:** Both AUS and manual underwriting require that ALL OPEN JUDGMENTS BE PAID IN FULL AND RELEASED FROM THE LAND RECORDS PRIOR TO CLOSING. Proof of the satisfaction of the account(s) must be retained in the loan file.
- **Previous Foreclosure:** Usually a Borrower is NOT eligible for an FHA mortgage if a previous residence went into foreclosure (or deed in lieu of foreclosure) within the most previous 3 years. The overall risk of the loan will be analyzed based on extenuating circumstances at the time of the foreclosure.
- **Bankruptcy:**
 1. Chapter 7: Borrower's discharge of bankruptcy should be 2 years or more previous to the loan application and the Borrower should show re-established credit with all recent credit accounts paid as agreed since the bankruptcy.
 2. Chapter 13: The Borrower may qualify without the bankruptcy being discharged. The Borrower must show at least 1 year paying as court-ordered through the Chapter 13 restructure. The court must approve a new FHA mortgage loan transaction and must provide a copy of the payment printout for the Borrower.

ASSETS

- DU/LP findings may be utilized to determine type of asset verification required if the file is underwritten through AUS.
- Files manually underwritten will require the most recent 2 months bank statements for each account used in the transaction. The statements must show the ownership and activity on the accounts and must show beginning and ending balances (to cover a full 3 month period for an average balance). All large deposits must be documented for the source of funds for the increase.
- Earnest money deposit(s) must be verified. The bank account used for the deposit(s) must show the balance before the deposit left the account and must also show ending balance after the deposit(s) cleared.

LOAN AMOUNTS

- All FHA loan amounts are rounded DOWN to the nearest whole dollar (\$1.00) increment.

MORTGAGE INSURANCE INFORMATION

MORTGAGE INSURANCE:

- FHA has several kinds of Insurance funds. Depending on the type of property and the type of loan transaction, one or more of these insurance types may apply.
- 1) **MUTUAL MORTGAGE INSURANCE (MMI):** Applies to 1-4 unit houses and eligible PUD's for both Fixed Rate and ARM transactions. (HUD program codes: 203b (fixed rate) and 251 (ARM)). Within this MMI fund, there are 2 kinds of mortgage insurance that may apply to the transaction: Upfront MIP and Monthly MIP:
 - a) **Upfront Mortgage Insurance (UFMIP)** is the one time mortgage insurance premium collected at closing and is sent to HUD to insure the loan. Currently, UFMIP is calculated at 1.5% X the base loan amount.
 - b) UFMIP may be paid in cash at closing and may be paid by the Borrower, Seller, or Lender.

WEBSTER BANK'S FHA UNDERWRITING MATRIX

- c) UFMIP may be financed in the mortgage amount. If financed, the UFMIP is added to the base loan amount to arrive at a greater "total" loan amount.
 - d) The total loan amount is the principal amount that the Borrower repays in the mortgage payment each month. The total loan amount may exceed FHA's statutory (locality) lending limit ONLY BY THE AMOUNT OF THE FINANCED UFMIP.
 - e) **The Borrower may obtain a partial refund of the UFMIP if the loan is refinanced to another FHA mortgage within the first 3 years of term. If the loan is paid off and/or not refinanced to another FHA mortgage, there will be no refund of the UFMIP.**
- 2) **ANNUAL PREMIUM (Monthly mortgage insurance):**
- a) In addition to the UFMIP, monthly mortgage insurance will be charged on transactions where the LTV is over 90% and the term is 15 years or more.
 - b) Monthly mortgage insurance is paid monthly (included in the Borrower's monthly payment.) The amount charged will be determined by the LTV and the term of the loan.
 - c) Monthly MIP may be canceled prior to payoff of loan. (For 30-year loans, MIP must be paid for 5 years and then canceled when LTV declines to 78%. For 15 year loans, MIP may be dropped when LTV reaches 78% - no specific number of payments must have been made.)
- 3) **GENERAL INSURANCE FUND (GI):**
- a) Applies to 1 Unit Condo properties. Loan transaction may be for both Fixed rate and ARM products.
 - b) HUD program code is Section 234c (Condo-Fixed Rate) OR Section 251 (Condo- Arm Loan).
 - c) Condo properties **DO NOT REQUIRE UFMIP.**
 - d) Monthly mortgage insurance is paid monthly in the Borrower's mortgage payment. Servicer sends the payment to HUD on monthly basis.
 - e) Insurance is paid by Borrower for entire term of loan (regardless of the LTV).
 - f) Current monthly mortgage insurance is calculated by multiplying the base loan amount X .50% divided by 12.
 - g) Borrower receives NO refund on this type of insurance when the loan is paid in full.

REFINANCE TRANSACTIONS

- For HUD purposes, there are 3 key points that will determine the maximum refinance mortgage amount: The **occupancy** status of the property, the **use** of the loan proceeds and **how and when the property was purchased.**
- Webster-to-Webster refinances may be done **ONLY** after the mortgage has BEEN SOLD to the Investor for AT LEAST **120** DAYS. Consult the TILC screen in Uniform for Investor sale date.
- If the property was acquired by the Borrower **less than 1 year before the refinance loan application AND THE EXISTING LIEN IS NOT ALREADY FHA-INSURED**, the maximum LTV calculation must be applied to the **lesser of the original sales price of the property OR the present appraised value.**
- **Allowable closing costs may be added to the price/value when calculating the loan amount for No Cash Out Refi's only. Cash out refinances may not include allowable closing costs when calculating the maximum loan amount. (NOTE: FOR STREAMLINE REFINANCES WITHOUT AN APPRAISAL, THE NEW BASE LOAN AMOUNT MAY NEVER EXCEED THE OLD FHA LOAN AMOUNT BEING PAID OFF WITH THE REFINANCE.)**
- Expenditures for repair/remodeling of property incurred after the purchase

WEBSTER BANK'S FHA UNDERWRITING MATRIX

may be added to the original sales price when calculating the loan amount – if the Borrower provides satisfactory written evidence of the expenses.

- Refer to the HUD Handbook 4155.1 Rev. 5 for additional information not covered in this section.
- For the purpose of clarifying the refinance transactions possible, the refinance types will be itemized in four (4) categories:
 - 1) **CASH OUT REFINANCE:**
 - a) Must be owner occupied.
 - b) FHA appraisal is required.
 - c) Borrower must qualify for loan transaction (qualify as if the loan is a purchase).
 - d) If property has no lien at current time, the refinance loan is considered cash out.
 - e) No Cash-Out refinances allowed in State of Texas.
 - f) UFMIP refund will apply if current lien is HUD-insured.
 - g) Allowable closing costs are not included in the calculation
 - 2) **RATE AND TERM REFINANCE:**
 - a) Must be Owner occupied.
 - b) FHA Appraisal is required.
 - c) Borrower must qualify for loan transaction.
 - d) **No cash back to Borrower at closing.**
 - e) Junior lien(s) must subordinate to new 1st mortgage and the secondary lien terms must meet HUD guidelines and LTV restrictions **OR** the lien(s) must be proven seasoned (over 1 year) if paid at closing.
 - f) Junior liens less than 1 year must have satisfactory documentation that lien funds were used for home improvement. Loan proceeds may replenish Borrower's own assets that were used for the home improvement.
 - g) Line of credit may subordinate, or may be included in payoff amount if seasoned over 1 year **OR** if opened less than 1 year, but total draws on line **DO NOT EXCEED \$1000.**
 - h) FHA UFMIP refund will apply if current lien is FHA-insured.
 - 3) **STREAMLINE REFINANCES:**
 - a) There are 3 types of Streamline refinances: (i.e. FHA to FHA):
 - i) STREAMLINE WITHOUT APPRAISAL.
 - ii) STREAMLINE WITH APPRAISAL.
 - iii) CREDIT QUALIFYING STREAMLINE.
 - b) All types of Streamlines are designed to lower the monthly P&I payment on the existing FHA loan. **Borrower may receive NO CASH BACK at the closing.** Unless the Title Holders to property are changing, or unless the monthly payment is increasing, the refinance transaction may be documented with minimal documentation. A "Credit Qualify" Streamline refinance will require qualifying information on total liabilities, income, and funds. Junior lien(s) must subordinate.
- The following documents are required in the loan file for **all types** of streamline refinances:
 - 1) **Mortgage payment history** on existing FHA lien (showing that the current FHA lien is in a current status (not past due) and also showing a satisfactory payment history - no more than (1) 30-day late payment within the past year. The file may contain a "mortgage only" credit report as verification of payment. (**NOTE:** For credit qualifying refinances, a full credit report will be required and must show the Borrower's overall credit is satisfactory).
 - 2) HUD forms required: (**NOTE:** These forms must be completed and the

WEBSTER BANK'S FHA UNDERWRITING MATRIX

documents must be executed by BOTH the Borrower(s) and the Originator.)

- 3) 1003 Application form (must list standard Borrower information including the employment. No assets, income, or liability information must be verified unless the transaction is a Credit-Qualify loan.)
- 4) 92900-B (Important Notice to Homebuyer) AND 92900-A (Addendum).
- 5) FHA Assumption Notice Form.
- 6) Informed Consumer Choice Disclosure.
- 7) Printout from the FHA Connection website showing the Case ## Assignment and showing the Refinance Authorization information.
- 8) A copy of the original note on the existing lien (to reflect **Note Holder** identity, the original **loan amount** – which will show whether any UFMIP was paid in cash or financed in the loan - the current **note RATE** and **first payment date** of the existing lien).
- 9) Satisfactory evidence of the Borrower(s) Social Security number(s).
- 10) If Borrower placed the current FHA loan through a non-credit qualifying assumption, Borrower must provide satisfactory written evidence that the existing lien is at least six (6) months old.
- 11) LDP (Limited Denial of Participation) search must be done on all parties to the loan transaction (Borrowers, Brokers, Originator, etc.).
- 12) Current payoff on existing lien (for most current month).

Streamline with Credit Qualifying - Additional documentation required:

1. Full Credit Report.
2. Current pay stubs for income verification.
3. Verbal verifications of employment (or actual VOE).
4. W-2 forms (if required to analyze income).
5. Current bank statements to support liquid funds to close loan or for reserves.
6. Full appraisal required.
7. CAIVRS search on all parties to transaction.
8. Other documentation as required by Underwriter upon review of file.

INVESTOR REFINANCES MUST USE THE FOLLOWING GUIDELINES:

- Refinance using the “streamline refinance without appraisal” guidelines.
- New loan amount is limited to sum of the principal unpaid balance, less UFMIP refund + **(plus)** new UFMIP.
- No closing expenses may be added into the loan amount calculation. The investor must pay all closing expenses out of pocket.
- Term of new loan cannot exceed the lesser of 30 years or unexpired term of current lien + **(plus)** 12 years.

<u>TYPE #3 REFINANCE: STREAMLINE WITH OR WITHOUT APPRAISAL: (USING CREDIT QUALIFYING):</u>

USE THE SAME MAXIMUM LOAN CALCULATION THAT APPLIES TO EITHER TYPE #1 OR TYPE #2 STREAMLINE REFINANCES.
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WEBSTER BANK'S FHA UNDERWRITING MATRIX

- “Credit Qualifying” refinances may be done WITH or WITHOUT an appraisal.
- Underwriting is performed (i.e., Verification of Income, Liability, and Assets) to ensure the Borrower(s) qualify for the new loan terms.
- Qualifying for loan must be done when one (or more) of the following instances occurs:
 1. Original Borrower(s) are being deleted from title and/or mortgage liability, which could trigger the “Due on Sale” clause. **(The remaining Borrower(s) must qualify for new mortgage payment.)**
 2. Our Borrower took title to the FHA mortgage under an Assumption Agreement in which he has not “credit qualified” for the mortgage AND the Borrower has NOT been making the payments for over 6 months.
 3. The term or type of the CURRENT FHA mortgage is changing resulting in a payment increase of over \$50 per month (this option is only available for owner occupied refinances).

FHA ALLOWABLE CLOSING COSTS

CLOSING COSTS THAT MAY BE CHARGED THE BORROWER AND MAY BE INCLUDED IN THE BORROWER'S 3% INVESTMENT REQUIREMENT		
Appraisal Fee	Flood Certification	Survey
Attorney Fee (3 rd Party Only)	Home Inspection fee (purchases) up to \$200	Tests or treatment required by HUD
Courier Fee - only on Refinances and must have Borrower's consent	Inspection Fee (repairs/completion) by Appraiser	Title Exam
Credit Report	Origination Fee (up to 1% of base loan amount)	Title Insurance endorsements
Deposit Verification fees	Pest Inspection	Title Insurance Policy (both Lender and Owner policy)
Document Tax Stamps on Note/ mortgage	Real estate Broker fees	Title Search/Abstract
Document Preparation Fee (3 rd Party only)	Recording fees for both mortgage and deed	
Engineer Certification of foundation (for Manufactured homes)	Settlement Fee (Attorney) 3 rd party	

UNACCEPTABLE CLOSING COSTS (Cannot be charged to Borrower)		
Application fee	Photocopies	Tax Service fee
Delivery fee	Processing fee	Underwriting fee
Disbursement fee	Re-draw fee	Warehousing fee
Judgment fee	Review fee	Wire fee
Notary fee	Transfer fee (for assignment of mortgage)	

CLOSING COSTS THAT MAY BE CHARGED TO BORROWER, BUT CANNOT BE INCLUDED IN THE 3% INVESTMENT REQUIREMENT:	
Amortization schedule	Lock in or Commitment fee
Application fee	Name affidavit fee

WEBSTER BANK'S FHA UNDERWRITING MATRIX

SECONDARY FINANCING (Subordinate Liens)

- Permitted on Owner-Occupied property only.
 - A) The Borrower may receive the entire required cash investment of 3% (i.e., BOTH down payment and closing costs) from the following 2 types of organizations:
 - 1) Federal, state and local **governmental agencies** (including city funded programs).
 - 2) Non-profit agencies considered "Instrumentalities of Government" that have received their "official approval status" from FHA.
 - a) These non-profit agencies will be shown as an "Approved Non-Profit" in the HUD website, "The FHA Connection." (If the non-profit agency is not listed in this website, they are NOT approved to provide subordinate financing (a secured loan) to a Borrower.)
 - b) The non-profit agency **MAY** be allowed to provide either a gift or a grant to the Borrower, however, even if they are not a HUD-approved agency. If the agency has a TAX ID# showing they meet the IRS requirement for tax-exempt status, they may provide either a gift or a grant to the Borrower for purchase of a home. The funds given to the Borrower will be listed on the application as a "gift" and there will be no lien placed on the property by the agency, and the gift cannot be repaid.
 - 3) Family Members:
 - a) If family members (defined as parents, grandparents or children) provide a 2nd mortgage to the Borrower, the terms of the loan must meet HUD requirements.
 - B) Other types of organizations or private individuals may also provide 2nd mortgage financing, **BUT ONLY AFTER THE BORROWER HAS ALREADY MADE THEIR 3% INVESTMENT (BETWEEN THE DOWN PAYMENT AND CLOSING COSTS).**
 - 1) These organizations and/or individuals may be:
 - a) Governmental agencies;
 - b) Non-profit agencies;
 - c) Family members;
 - (1) Family members (parents, grandparents, children) may provide a 2nd mortgage to Borrower – which may be secured or unsecured. If there is repayment on the loan, the payment must meet HUD restrictions shown below. The loan may be constructed so as no repayment is required at all or at least until the property is refinanced or sold.
- Refer to the HUD Handbook 4155.1 (Section 1-13) for additional information on secondary financing.
 - The 2nd mortgages must meet the following conditions:
 - A) The combined 1st and 2nd mortgages **DO NOT EXCEED** the maximum loan amount calculations for the transaction OR the statutory limit for the state and county in which the property lies.
 - B) 2nd mortgage requirements: **NOTE:** Must have equal payments made on a monthly basis. The 2nd mortgage payment cannot exceed the 1st mortgage payment.
 - 1) 2nd mortgage note must not have:
 - a) Any balloon payment(s) in the first five (5) years of the term.
 - b) The Borrower qualifies for the payment of the 2 mortgages as well as the other debt he pays monthly.

WEBSTER BANK'S FHA UNDERWRITING MATRIX

RESTRICTIONS ON MAXIMUM LOAN AMOUNT CALCULATIONS

- Typically, FHA will NOT insure more than one mortgage to any Borrower. An individual or couple owning a home that is already covered by an FHA mortgage CANNOT purchase another property that will be financed through FHA except under the following conditions:
 - 1) **Increase in family size.** If the number of dependents has increased to the point where the present home no longer meets the family's needs, the Borrower may be able to finance another home through FHA. Borrower must provide satisfactory evidence of the increase in family size and show how the home no longer is large enough for the family. The Borrower **MUST ALSO PAYDOWN THE 1st FHA Mortgage so that the LTV on that loan DOES NOT EXCEED 75% OF THE CURRENT APPRAISED VALUE OF THE PROPERTY.** (NOTE: A full appraisal will be required to establish the value of the home).
 - 2) **Relocation:** For Borrowers who are relocating to a new area that is NOT within a "reasonable commute" from their FHA-insured primary residence, the Borrower may keep the FHA-insured property as a rental property. The mortgage payment on the home must be documented and a lease of a 1-year duration (or longer) is required to show the rental income supports the payment for the mortgage.
 - 3) **Vacating a Jointly owned property:** If the Borrower is vacating a residence that will remain occupied by a Co-Mortgagor, the individual vacating the property is permitted to obtain another FHA-insured loan. Acceptable situations would include those following a divorce or where one of the Co-Mortgagors will vacate the existing property to marry another.
 - a) For divorce situations, a copy of the divorce decree and the quitclaim deed would be required to show that the Borrower has relinquished the first FHA-insured property as part of the property settlement. It is also necessary to provide copies of canceled mortgage payment checks to show the ex-spouse has been paying the mortgage payment (with no lates) for at least the past 12 months.
 - 4) **A Non-Occupant Co-Borrower:** A Borrower may be a Non-Occupying Borrower on the purchase of a 1-unit home for a family member to assist that person in qualifying the mortgage. The Borrower MAY STILL OBTAIN MAXIMUM FHA FINANCING ON HIS OWN PERSONAL MORTGAGE FOR HIS PERSONAL RESIDENCE.

Unless one of the 4 scenarios (above) is met, the Borrower may NOT obtain maximum FHA (over 75% LTV) financing.

- CERTAIN TYPES OF LOAN TRANSACTIONS AFFECT THE MAXIMUM LOAN AMOUNT THAT CAN BE PROVIDED TO THE BORROWER:
 - 1) **Identity of Interest** (Personal Relationship) between Buyer and Seller of property.
 - a) Maximum LTV is **85%** UNLESS:
 - i) The Borrower is purchasing the Seller's **PRIMARY RESIDENCE.**
 - ii) The Borrower is purchasing the Seller's **Investment Property**, but the Borrower has already lived in subject property **6 months** or more.
 - iii) The Borrower is an employee of the builder who is selling a model or spec home to the Borrower as his new Primary Residence.
 - iv) Acceptable employer relocation packages.
 - 2) A Co-Borrower is on the loan transaction who will **NOT** occupy the property. (Allowed for purchase of **1 unit** property only.) (NOTE: **Non-Occupant Co-Borrowers** are NOT allowed on 2-4 family home purchases, NOR are they allowed on any type of FHA Refinance.)
 - 3) **3 and 4 Unit properties:** Maximum financing for multi family homes with

WEBSTER BANK'S FHA UNDERWRITING MATRIX

either 3 or 4 units CANNOT BE ALLOWED UNLESS THE RENTAL INCOME ON THE PROPERTY SUPPORTS THE MORTGAGE PAYMENT.**

- a) **3 months PITI Reserves** are required (from Borrowers own funds. **NO GIFTS ARE ALLOWED TO MEET RESERVE REQUIREMENT.**)
 - b) ** The maximum loan amount is limited to the amount equal to **85%** of the gross rent for **ALL living units** of the subject property (including the Unit(s) which will be owner-occupied).
 - c) Rental income (if used to qualify) may be added to the Borrower's wage income. The rental income figure to be used will be 85% of the gross rent for the rental units (not including units that are owner occupied). For purchases, the appraiser is responsible for documenting the "MARKET RENT" for the property. Leases will NOT be accepted to show a higher rent over what the appraiser is using. For refinances, the Borrower must provide Schedule E from most recent 1040 form to document the actual rents received for their property. If the property was recently purchased and the rental information is NOT reported on the 1040 form, the Borrower must provide copies of current leases to support the rental income. If the appraiser reports market rents that are less than the leases shown by the Borrower, the discrepancy must be addressed, and clarified.
- 4) Borrower is constructing a new house on land he owns and Borrower will serve as the general contractor. Maximum financing is available only if the Borrower receives no cash back at closing. The LTV will be calculated on the LESSER OF:
- a) The current appraised value of the property plus allowable closing costs; OR
 - b) The documented acquisition cost of the property (builder's costs and all the subcontractor's charges **PLUS** the documented ORIGINAL Cost of the Lot (can use the current appraised value of the lot if the Borrower has owned it for at least 6 months) **PLUS** all costs associated with the construction loan obtained by the Borrower to fund construction of the house **PLUS** the closing expenses (closing costs, prepaids and discount points) paid by the Borrower.

APPRAISER REQUIREMENTS

- Appraisers must be on FHA's approved list on the FHA Connection (this verifies the Appraiser is currently licensed and in good standing with both the state and with HUD.) A copy of the appraiser's license is not required in the loan file, as the Lender may not obtain an FHA Case # if the appraiser is not currently on the HUD approval list.
- The assigned appraiser must perform the inspection of the property. He/she may not simply sign the appraisal performed by another appraiser

APPRAISAL REQUIREMENTS

- Appraisal must include the complete Valuation Package with the 1004 appraisal report.
- All VC sheets, 3 photos (front, rear and street view of subject house) are required, a room sketch of interior, a location map of subject and all comps is required. For manufactured homes, the appraiser is also required to provide the additional 1004C Addendum report and must identify the model type by the ID# on the tag.
- Appraisers must identify all sales activity on the subject and the comps for the prior 3 years. For purchase transactions, the underwriter must carefully review if the subject property was purchased by the seller less than 1-year prior to the borrower's application for the mortgage. If the Seller has not owned the subject property for over a year, the Underwriter must obtain information on the price the Seller paid for the

WEBSTER BANK'S FHA UNDERWRITING MATRIX

property and the exact date the Seller purchased property. Any increase in price within the first year after the Seller bought the property must be carefully analyzed and appropriate steps must be taken to justify a value/price increase. Cost of renovation and improvement may be required from the Seller and a second (FHA) appraisal may also be required. The FHA Underwriter is to follow the PA Bulletin 03-044 that outlines the steps to be followed for Property being "flipped". **Note:** Any costs involved to validate price increase MAY NOT BE CHARGED TO THE BORROWER.

- Any interested 3rd party contributions/concessions must be addressed on the appraisal and appropriate adjustments must be made. A copy of the sales contract must be provided to the appraiser

MORTGAGE INSURANCE

FHA issues Mortgage Insurance Certificate (MIC) to the Lender when the closed loan file is shipped to FHA for review and the Mortgage Insurance Premium (MIP) has been sent (from Lender) to HUD.

- Condominiums (section 234c) require no up-front MIP, but annual premiums of 0.50% of the unpaid principal balance for the life of the loan are required. The loan amount must be rounded down to the closest dollar in increments of \$1.00. Mortgage insurance is required for the "life of the loan" on condos and is not subject to cancellation under the Homeowner's Protection Act.
- PUD's are separately listed on FHA Condo List and require up-front MIP in the same way a detached property required UFMIP.

UPFRONT MIP TABLE

TERM ¹	UFMIP	LTV RATIO ²	ANNUAL PREMIUM ³	YEARS
16 – 30 years	1.50%	< = 89.99%	.50%	Determined when the loan balance equals 78%, provided the mortgagor has paid the annual mortgage insurance premium for at least 5 years.
16 – 30 years	1.50%	90.00 – 95.00%	.50%	
16 – 30 years	1.50%	= 95.01%	.50%	
Up to 15 years	1.50%	89.99% and less	NONE	
Up to 15 years	1.50%	90.00 – 95.00%	.25%	
Up to 15 years	1.50%	95.01% and over	.25%	

¹The UFMIP (calculated by multiplying the base loan by the factor) is either financed and added to the base loan amount, or paid in cash. The UFMIP cannot be "split" (i.e., partially financed and partially paid in cash.) When the financed UFMIP is added to the base loan amount (to arrive at the new TOTAL loan amount), the Total loan is then rounded down to the nearest whole dollar.

²The LTV for this purpose is calculated by dividing the base loan amount by the FHA appraised value (not the sales price if there is any difference).

³In most cases an annual premium (calculated on the unpaid, declining balance of the base loan) will be collected. The fiscal year in which the loan closes and the LTV determine the amount and duration of the annual premium.

** The number of years that the Annual Premium (that is paid monthly) will be in force will be determined when the LTV (scheduled or actual) drops to 78%.

Condominiums – Monthly MIP only. The monthly premium is calculated at .50% regardless of the term or LTV of the loan. **No up-front MIP required.**

SPECIAL REQUIREMENTS/ RESTRICTIONS

CAIVRS, LDP and GSA Searches are required on all FHA transactions for Webster Bank.

WEBSTER BANK'S FHA UNDERWRITING MATRIX

Check the FHA Connection for the following and document the results on the Mortgage Credit Analysis Worksheet:

CAIVRS (Credit Alert Interactive Voice Response System):

- Access the system through the FHA website (The FHA Connection) the Social Security number for each Borrower must be run through the Federal Computer system which searches for Federally-funded delinquencies by SSAN. There are six (6) governmental agencies that report delinquencies/defaults to this federal computerized tracking system (Dept. of Ed., FHA, VA Education and GI (mortgage) Loans, Rural Housing Admin., Small Business Admin., and the Dept. of Justice (Civil Levies).
- Any reported default (i.e., any finding other than "A" for Acceptable) from these 6 agencies will be listed on the search report. Included in the search results will be an agency phone number listed for further action and resolution on the part of the Borrower.
- The Lender is responsible for obtaining the final resolution of this claim from the Borrower prior to closing. The Borrower must pay off the delinquency or make satisfactory repayment arrangement with the agency reporting the default. **NOTE:** FHA cannot alter or delete the CAIVRS information from federal agencies other than itself.
- A copy of the CAIVRS printout must be retained in the loan file.

Limited Denials of Participation (LDP) and GSA (Government Services Administration) Lists:

- This government database holds information concerning parties who have been denied participation in FHA's insurance programs OR other government contracts or programs because of wrongdoing.
- Examine/search the list for all parties to the transaction and the loan application (borrower, co-borrowers, realtor, appraiser, seller, licensed professionals contracted to provide mechanical certifications, broker, originator, etc.).
- Access this database via the website:
<http://epls.arnet.gov/servlet/EPLSearchMain/2>
- If any party who has been "searched" appears on the LDP/GSA lists, **THE LOAN APPLICATION IS NOT ELIGIBLE FOR FHA INSURANCE AND THE LOAN MUST BE DENIED.*** (*Exception to this rule is if the ineligible party is the seller of the property and the seller is selling his primary residence.).
- A copy of the printouts for all the search information must be retained in the loan file.

Notes:

Non-Purchasing Spouse (Borrower's spouse is NOT on the loan application or the purchase contract) (Community Property States)

- For purchases, if the subject property is located in a community property state OR for refinances, if the Borrower resides in a community property state, the following requirements apply:
 - A credit report for the non-purchasing spouse is required to determine any joint or individual debts that must be considered in the credit analysis. Any accounts that were opened by the spouse, but are JOINT accounts with the purchasing Borrower must be included in debt ratio to qualify for the loan.
 - A Clear CAIVRS on the spouse is required.
 - Even if the non-purchasing spouse does not have a social security number, a credit report is still required.
 - All debt of the spouse must be included in the Borrower's debt ratio (use 5% of the outstanding balance if not specified on the credit

WEBSTER BANK'S FHA UNDERWRITING MATRIX

report), unless such inclusion of debt is specifically prohibited by state law.

- If debts of the non-purchasing spouse are in dispute, they need not be counted provided the file contains satisfactory documentation to support the fact that the account is in a current dispute status.
- A poor credit history of a non-purchasing spouse should **not** be the **sole** basis for declining the loan.
- If it is required by a state law in order to perfect the valid and enforceable 1st mortgage lien, the non-purchasing spouse must sign the security instrument (mortgage) OR the spouse must provide satisfactory written documentation to verify he/she is relinquishing all present and future rights to ownership of the subject property.

The community property states are: AZ, CA, ID, LA, NV, NM, TX, WA and WI.

TEMPORARY BUYDOWN	Temporary buydowns are permitted on 30FHA product. Refer to the product guidelines for details.
ASSUMABILITY	Allowed, subject to prior credit approval for the party assuming the lien.
PREPAYMENT PENALTIES	No prepayment penalty
SERVICING	Loans are sold to investors in the secondary market. Loans may be sold servicing released or servicing retained.
PROCESSING	Standard Webster Bank processing guidelines for full and alternative documentation applies.

UNDERWRITING IN ACCORDANCE WITH HUD UNDERWRITING GUIDELINES

Qualifying Ratios	<ul style="list-style-type: none"> • 29%/41% of gross income. Where there is justification for exceeding the standard qualifying ratios, the underwriter must fully document two compensating factors, as defined by HUD guidelines. • If interest rate increases over that on underwriting approval by more than 1%, or if discount point(s) increase at all, loan must be re-underwritten. Re-underwriting includes a new application form and mortgage credit analysis worksheet.
Cash Reserves	<ul style="list-style-type: none"> • 3 months reserves required on 3-4 Family properties (no gifts allowed)
PROGRAM SPECIFIC DOCUMENTS	<ul style="list-style-type: none"> • Addendums to URLA (92900a and 92900b forms). • Assumption Notice. • Borrower(s) identity(ies) must be verified although no photo I.D. is required. • Importance of Home Inspections (dated prior to purchase contract) HUD Form 92564.CN. This form is not needed if it is incorporated into the Purchase Contract. • Evidence of Social Security Number for each Borrower. • Amendatory Clause/Real Estate Certification (the verbiage for these required disclosures might be contained within the purchase agreement. If so, no additional documents are required separately.) • The Informed Consumer Choice Disclosure. • HUD Form 92564HS (Notice to Homebuyer) form from the FHA appraisal. • Servicing Transfer Disclosure.

WEBSTER BANK'S FHA UNDERWRITING MATRIX

- Rate lock agreement (of 15 days or more prior to closing) required if the Borrower is charged for a rate lock or commitment fee.
- Borrower's Signature Authorization form.
- Condominium Owner Occupancy Certification (on all FHA transactions except streamlined refinances). FHA Underwriter must verify the owner occupancy of the condo project is currently 51% or greater (i.e., remains in "good standing" with HUD.)
- Condominium Spot Approval Questionnaire (if FHA Underwriter is issuing an approval on a Condo complex that has not been pre-approved by HUD).
- Power of Attorney forms (if applicable). If using a POA for the Borrower, it may be used for CLOSING DOCUMENTS only. The POA must be fully executed, must be **specific** to the loan transaction and must meet HUD and state requirements.
- Probate Court approval documents (for Estate Purchases) if applicable. The probate approval of any FHA loan must be documented if the Seller (Owner of Record) is currently in the name of an estate.

AGE OF DOCUMENTS

Credit document limitations:

- 90 days at time of loan underwriting approval (**NOTE:** Verbal VOE's can be no older than 30 days at time of loan approval.) Case by case, the FHA Underwriter may require the most current paystub or credit account statement for final analysis of the loan)
- 120 days at closing for existing properties (manual approval).
- 180 days at closing for proposed construction (manual approval).
- USE DU/LP FINDINGS FOR EXPIRATION OF DOCUMENTS IF LOAN IS APPROVED BY AN AUS.

Appraisal Report limitations:

- 180 days at the signing of the note for existing construction.
- 12 months at the signing of the note for proposed construction.
- Once the appraisal has exceeded its expiration date, AN ENTIRE NEW APPRAISAL MUST BE DONE. Lender must notify FHA that the original appraisal and case # have expired. HUD will either terminate the old case # and assign a new one to the new appraisal or will transfer the old case # to the new appraisal.

Property Inspection Reports/Certifications:

- The termite report is good for 90 days (date of inspection to closing). Other VC sheet requirements such as a water test, septic inspection, repair inspections, etc. are good for 90 days. (An exception may be made for water tests on community wells where the water is regularly tested on a schedule that may exceed 90 days.)