

The information in this matrix is provided as a tool to help you document Federal Housing Administration (FHA) mortgages. The matrix is intended as a complimentary resource to the HUD Handbook 4000.1 for loans submitted through Loan Product Advisor to FHA TOTAL Scorecard for assessment. This documentation matrix only highlights specific eligible income types, assets sources and qualifying monthly debts outlined in the HUD Handbook 4000.1, II.A.4.a., Underwriting with an Automated Underwriting System (AUS). It does not cover all scenarios, nor does it supersede or replace the HUD Handbook 4000.1.

The mortgagee is ultimately responsible for the data integrity, regardless of when the loan was created in Loan Product Advisor initially, or data elements were transmitted from loan origination systems through Loan Product Advisor to FHA TOTAL Scorecard for assessment. You must always review the Loan Product Advisor FHA TOTAL Scorecard Feedback Certificate to ensure valid and accurate verification messages.

FHA Loans Receiving a ‘Refer’ Risk Classification

This document does not contain information for FHA loan applications receiving a “Refer” risk classification. These loans are required to be evaluated by a direct endorsement (DE) underwriter per FHA’s credit policy as described in FHA SF Housing Policy Handbook - 4000.1.

Use of FHA’s TOTAL Mortgage Scorecard

Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the final underwriting decision. The mortgagee must submit data to TOTAL Mortgage Scorecard through an approved AUS vendor in a data format acceptable to the AUS vendor, to meet the requirements described in the TOTAL Mortgage Scorecard Developer’s Guide.

Function of the TOTAL Mortgage Scorecard

The TOTAL Mortgage Scorecard evaluates the overall credit risk posed by borrower, based on a number of credit variables, when combined with the functionalities of an AUS. The mortgagee may not accept or deny an FHA-insured Mortgage based solely on a risk assessment generated by TOTAL Mortgage Scorecard and must ensure full compliance with all FHA eligibility requirements, and verify the information used to score the Mortgage through TOTAL.

The underwriter must underwrite all appraisals according to standard FHA requirements and fully underwrite those applications where TOTAL issues a Refer.

Income Requirements – Evaluating Credit History

Topic	FHA Accept
Disputed Derogatory Credit Accounts	If the credit report utilized by TOTAL Mortgage Scorecard indicates borrower has \$1,000 or more collectively in disputed derogatory credit accounts, downgrade to a Refer and manually underwrite.
Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report	If borrower is disputing non-derogatory accounts, or accounts not on the credit report, the mortgagee is not required to downgrade the application to a Refer. However, if the dispute results in the borrower’s monthly debt payments utilized in the Debt-to-Income (DTI) ratio being less than the amount indicated on the credit report, the borrower must provide documentation of the lower payments.
Judgments	Mortgagee must provide: <ul style="list-style-type: none"> • Evidence of resolved or payment in full, if paid prior to or at settlement; • The payoff statement, if paid at settlement; or • The payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.

Income Requirements – Evaluating Credit History, Continued

Topic	FHA Accept
Bankruptcy	The bankruptcy and discharge documents must be obtained if: <ul style="list-style-type: none"> • The credit report does not verify the discharge date, or • Additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, obtain the bankruptcy and discharge documents.
Pre-Foreclosure Sales (Short Sales)	If the credit report does not verify the date of the transfer of title by Short Sale, obtain the Short Sale documents.
Foreclosure	If the credit report does not verify the date of the transfer of title through the foreclosure, obtain the foreclosure documents.
Deed-in-Lieu (DIL) of Foreclosure	If the credit report does not verify the date of the transfer of title by DIL of foreclosure, obtain a copy of the DIL of foreclosure.
Credit Counseling/ Payment Plan	Participating in a consumer credit counseling program does not require a downgrade to a manual underwriting. No explanation or other documentation is needed.
Mortgage Payment History - Late Mortgage Payment History for Purchase and No Cash-Out Refinance	Downgrade to a Refer and manually underwrite if any mortgage trade line or line-of-credit payments, during the most recent 12 months reflect: <ul style="list-style-type: none"> • Three or more late payments of greater than 30 Days, • One or more late payments of 60 Days plus one or more 30-Day late payments, or • One payment greater than 90 Days late.
Mortgage Payment History - Late Mortgage Payment History for Cash-Out Refinance Transactions	Downgrade to a Refer and manually underwrite if any mortgage trade line or line-of-credit payments, reflect: <ul style="list-style-type: none"> • A current delinquency, or • Any delinquency within 12 months of the case number assignment date.

Income Requirements – Evaluating Liabilities & Debt

Topic	FHA Accept
General liabilities and debts	<p>The mortgagee must determine the borrower's monthly liabilities by reviewing all debts listed on the credit report, Uniform Residential Loan Application (URLA), and required documentation.</p> <p>All applicable monthly liabilities must be included in the qualifying ratio. Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income. The borrower may not pay down the balance in order to meet the 10-month requirement.</p> <p>Accounts for which the borrower is an authorized user must be included in a borrower's DTI ratio unless the mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months.</p> <p>If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the borrower's DTI. Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the borrower's assets, do not require consideration of repayment for qualifying purposes.</p>

Income Requirements – Evaluating Liabilities & Debt, Continued

Topic	FHA Accept
General liabilities and debts <i>(Continued)</i>	Document that the funds used to pay off debts prior to closing came from an acceptable source, and the borrower did not incur new debts that were not included in the DTI ratio. Negative income must be subtracted from the borrower’s gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.
Undisclosed Debt Other Than a Mortgage	When a debt or obligation, other than a Mortgage not listed on the mortgage application and/or credit report and not considered by the AUS, is revealed during the application process, the mortgagee must: <ul style="list-style-type: none"> • Verify the actual monthly payment amount; • Re-submit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the borrower’s debt increases by more than \$100 per month; and • Determine that any funds borrowed were not/will not be used for the borrower’s MRI.
Undisclosed Mortgage Debt	When a debt or obligation secured by a mortgage not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, downgrade to a Refer and manually underwrite the Mortgage.
Inaccuracy in Debt Considered	When an inaccuracy in the amount or type of debt or obligation is revealed during the application process and the correct information was not considered by the AUS: <ul style="list-style-type: none"> • Verify the actual monthly payment amount; • Re-submit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the borrower’s debt increases by more than \$100 per month; and • Determine that the additional debt was not/will not be used for the borrower’s Minimum Required Investment (MRI).
Federal Debt	Include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.
Alimony, Child Support, and Maintenance	Verify and document the monthly obligation by obtaining the official signed divorce decree, separation agreement, maintenance agreement, or other legal order. Obtain the borrower’s pay stubs covering no less than 28 consecutive days to verify whether the borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.
Non-Borrowing Spouse Debt in Community Property States	Verify and document the debt of the non-borrowing spouse and make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration. Obtain a traditional or non-traditional credit report for the non-borrowing spouse in order to determine the debts that must be included in the liabilities. The credit report for the non-borrowing spouse is for the purpose of establishing debt only, and is not submitted to TOTAL Mortgage Scorecard for credit evaluation.

Income Requirements – Evaluating Liabilities & Debt, Continued

Topic	FHA Accept
Deferred Obligations (Excludes Student Loans)	Obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. Obtain evidence of the anticipated monthly payment obligation, if available.
Student Loans	Include all Student Loans in the borrower's liabilities, regardless of the payment type or status of payments. If the payment used for the monthly obligation is: <ul style="list-style-type: none"> • Less than 1% of the outstanding balance reported on the borrower's credit report, and • Less than the monthly payment reported on the borrower's credit report, Obtain written documentation of: <ul style="list-style-type: none"> • The actual monthly payment, • The payment status, • Evidence of the outstanding balance and Terms from the creditor.
Installment Loans	If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required. If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.
Revolving Charge Accounts	The credit report must be used to document the terms, balance and payment amount on the account, if available. Where the credit report does not reflect the necessary information on the charge account, obtain a copy of the most recent charge account statement or use 5% of the outstanding balance to document the monthly payment.
30-Day Accounts	The credit report must be used to: <ul style="list-style-type: none"> • Document that the borrower has paid the balance on the account monthly for the previous 12 months. • Document the balance and that funds are available to pay off the balance in excess of the funds and reserves required to close the Mortgage.
Contingent Liabilities	Mortgage Assumptions: <ul style="list-style-type: none"> • Obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name. Cosigned Liabilities: <ul style="list-style-type: none"> • If the cosigned liability is not included in the monthly obligation, obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan. Court Ordered Divorce Decree: <ul style="list-style-type: none"> • Obtain a copy of the divorce decree ordering the spouse to make payments.

Income Requirements – Evaluating Liabilities & Debt, Continued

Topic	FHA Accept
Collection Accounts	<p>If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of \$2,000 or greater, the mortgagee must verify:</p> <ul style="list-style-type: none"> • The debt is paid in full at the time of or prior to settlement using acceptable sources of funds; • The borrower has made payment arrangements with the creditor and include the monthly payment in the borrower’s DTI. <ul style="list-style-type: none"> ○ If a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection and include the monthly payment in the borrower’s DTI. <p>Collection accounts of a non-borrowing spouse in a community property state must be included in the \$2,000 cumulative balance and analyzed as part of the borrower’s ability to pay all collection accounts, unless excluded by state law.</p>
Charge Off Accounts	<p>Charge Off Accounts do not need to be included in the borrower’s liabilities or debt.</p>
Business Debt in Borrower’s Name	<p>If debt on personal credit report is paid by their business, obtain documentation that the debt is paid out of company funds and was considered in the cash flow analysis of the borrower’s business.</p>

Income Requirements - Employment

Topic	FHA Accept
Employment Documentation - Traditional and Alternative	<p>For all Employment related Income, verify the borrower’s most recent two years of employment and income, and document using one of the following methods.</p> <ul style="list-style-type: none"> • *Traditional Current Employment Documentation <p>Obtain most recent pay stub and one of the following to verify current employment:</p> <ul style="list-style-type: none"> ○ A written Verification of Employment (VOE) covering two years; or ○ Direct electronic third-party verification of employment covering two years. The borrower must have authorized mortgagee to verify income and employment and the date of the data contained in the completed verification must conform with FHA requirements at II.A.1.a.i.(A) (1). *Alternative Current Employment Documentation <ul style="list-style-type: none"> • Obtain copies of most recent pay stub with borrower’s year-to-date earnings; <ul style="list-style-type: none"> ○ Obtain copies of the original IRS W-2 forms from the previous two years; and ○ Document current employment by telephone; sign and date the verification documentation; and note the name, title, and telephone number of the person with whom employment was verified. <p>* Re-verification of employment must be completed within 10 days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.</p>

Income Requirements – Employment, Continued

Topic	FHA Accept
<p>Past Employment Documentation</p>	<p>Direct verification of the borrower’s employment history for the previous two years is not required if:</p> <ul style="list-style-type: none"> • Current employer confirms a two-year employment history, or a paystub reflects a hiring date, and • Only base pay is used to qualify (no Overtime or Bonus Income), and • The borrower executes IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two tax years. <p>If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, obtain one or a combination of the following for the most recent two years to verify the applicant’s employment history:</p> <ul style="list-style-type: none"> • W-2(s) • VOE(s) • Direct electronic verification by a third-party vendor. The borrower must have authorized mortgagee to verify income and employment and the date of the data contained in the completed verification must conform with FHA requirements at II.A.1.a.i.(A) (1). • Evidence supporting enrollment in school or the military during the most recent two full years.
<p>Part-Time Employment</p>	<p>Income from part-time employment may be used as effective income if the borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue</p>
<p>Overtime and Bonus Income</p>	<p>Overtime and bonus income may be used as effective income if the borrower has received this income for the past two years and is reasonably likely to continue.</p> <p>Periods of overtime and bonus income of less than two years may be considered effective income if the mortgagee documents that the overtime and bonus income has been consistently earned over a period of not less than one year and is reasonably likely to continue.</p>
<p>Employed by Family-Owned Business Income</p>	<p>Family-owned business income may be considered as effective income if the borrower is not an owner in the family-owned business:</p> <ul style="list-style-type: none"> • Verify and document the borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage. <ul style="list-style-type: none"> ○ Official business documents include corporate resolutions or other business organizational documents, business tax returns or Schedule K-1 (IRS Form 1065), U.S. Return of Partnership Income, or an official letter from a certified public accountant on their business letterhead. • Obtain copies of signed personal tax returns or tax transcripts in addition to traditional or alternative documentation requirements.
<p>Commission Income</p>	<p>Commission Income may be used as effective income if the borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.</p> <p>Must use traditional or alternative employment documentation.</p>

Income Requirements – Employment, Continued

Topic	FHA Accept
<p>Self-Employment Income</p>	<p>Individual and Business Tax Returns:</p> <ul style="list-style-type: none"> • Obtain the borrower’s business tax returns for the most recent two years unless the following criteria are met: <ul style="list-style-type: none"> ○ Individual federal income tax returns show increasing self-employment income over the past two years; ○ Funds to close are not coming from business accounts; and ○ The Mortgage to be insured is not a cash-out refinance. <p>In lieu of signed individual or business tax returns from the borrower, the mortgagee may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and tax transcripts directly from the IRS.</p> <p>Profit & Loss Statements and Balance Sheets:</p> <ul style="list-style-type: none"> • Obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the borrower. A balance sheet is not required for self-employed borrowers filing Schedule C income. <p>If income used to qualify the borrower exceeds the two-year average of tax returns, obtain an audited P&L or signed quarterly tax return from the IRS.</p>
<p>Frequent Changes in Employment</p>	<p>If the borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, the mortgagee must take additional steps to verify and document the stability of the borrower’s employment income.</p> <p>Additional analysis not required for fields of employment that regularly require a borrower to work for various employers (such as temp companies or union trades). Obtain:</p> <ul style="list-style-type: none"> • Transcripts of training and education demonstrating qualification for a new position; or • Employment documentation evidencing continual increases in income and/or benefits.
<p>Addressing Gaps in Employment</p>	<p>For gaps in employment of six months or more, the borrower’s current income may be considered as effective income if mortgagee can verify and document that:</p> <ul style="list-style-type: none"> • The borrower has been employed in the current job for at least six months at the time of case number assignment; and • A two-year work history prior to the absence from employment using standard or alternative employment verification.
<p>Addressing Temporary Reduction in Income</p>	<p>If a temporary reduction of income due to a short-term disability or similar temporary leave, the borrower’s current income may be considered as effective income, if it can verify and document that:</p> <ul style="list-style-type: none"> • The borrower intends to return to work; • The borrower has the right to return to work; and • The borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.

Income Requirements – Other Sources of Effective Income

Topic	FHA Accept
<p>Disability Benefits</p>	<p>Verify and document the borrower’s receipt of benefits from the SSA, VA, or private disability insurance provider.</p> <p>Obtain documentation that establishes award benefits to the borrower.</p> <p>If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as effective income.</p> <p>If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee may consider the income effective and reasonably likely to continue. The mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.</p> <p>Under no circumstance may the mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the borrower.</p>
<p>Alimony, Child Support, and Maintenance Income</p>	<p>Obtain a fully executed copy of the borrower’s final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.</p> <p>When using a final divorce decree, legal separation agreement or court order, obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.</p> <p>Document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.</p> <p>Provide evidence that the claimed income will continue for at least three years. The front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details may be used.</p>
<p>Mortgage Credit Certificates</p>	<p>Verify and document that the governmental entity subsidizes the borrower’s mortgage payments either through direct payments or tax rebates.</p> <p>Mortgage Credit Certificate income that is not used to directly offset the mortgage payment before calculating the qualifying ratios may be included as effective income.</p>
<p>Automobile Allowances</p>	<p>Verify and document the Automobile Allowance received from the employer for the previous two years.</p> <p>Obtain IRS Form 2106, Employee Business Expenses, for the previous two years.</p>
<p>Retirement Income - Social Security</p>	<p>Verify and document borrower’s receipt of income from the SSA that it is likely to continue for at least a three-year period from the date of case number assignment by obtaining any one of the following:</p> <ul style="list-style-type: none"> • Federal tax returns; • Most recent bank statement evidencing receipt of income from the SSA; • Proof of Income Letter,” that evidences income from the SSA; or • Copy of the borrower’s form SSA-1099/1042S, Social Security Benefit Statement. <p>In addition, document the continuance of income by obtaining from the borrower (1) a copy of the last Notice of Award letter which states the SSA’s determination on the borrower’s eligibility for SSA income or (2) an equivalent document that establishes award benefits to the borrower (equivalent document).</p>

Income Requirements - Other Sources of Effective Income, Continued

Topic	FHA Accept
<p>Retirement Income - IRA/401(k)</p>	<p>Verify and document borrower’s receipt of recurring IRA/401(k) distribution income and that it is reasonably likely to continue for three years.</p> <p>Obtain the most recent IRA/401(k) statement and any one of the following documents:</p> <ul style="list-style-type: none"> • Federal tax returns; or • Most recent bank statement evidencing receipt of income.
<p>Rental Income Received from the Subject Property</p>	<p>The mortgagee may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements:</p> <p>When the Property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property. Documentation varies depending upon the length of time the borrower has owned the Property.</p> <p>Limited or No History of Rental Income: Borrower does not have a history of Rental Income from the subject since the previous tax filing.</p> <ul style="list-style-type: none"> • Two- to Four-Units: The mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) and, if available, the prospective leases. • One Unit: The mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report; Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule; and Fannie Mae Form 216/Freddie Mac Form 998, Operating Income Statement, showing fair market rent and, if available, the prospective lease. <p>History of Rental Income: Borrower has a history of Rental Income from the subject since the previous tax filing. The mortgagee must verify and document the existing Rental Income by obtaining the borrower’s most recent tax returns, including Schedule E, from the previous two years.</p> <p>For Properties with less than two years of Rental Income history, the mortgagee must document the date of acquisition by providing the deed, Closing Disclosure or similar legal document.</p>
<p>Rental Income from Other Real Estate Holdings</p>	<p>Rental Income from other real estate holdings may be considered effective income if Rental income is being derived from the property being vacated by the borrower, the borrower must be relocating to an area more than 100 miles from the borrower’s current principal residence.</p> <p>The mortgagee must obtain a lease agreement of at least one year’s duration after the Mortgage is closed and evidence of the payment of the security deposit or first month’s rent.</p> <p>Limited or No History of Rental Income: Where the borrower does not have a history of Rental Income for the property since previous tax filing, including property being vacated by the borrower.</p> <p>Obtain an appraisal evidencing market rent and that the borrower has at least 25%equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.</p> <ul style="list-style-type: none"> • Two- to Four-Units: Verify and document the proposed rental income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) and, if available, the prospective leases.

Income Requirements – Other Sources of Effective Income, Continued

Topic	FHA Accept
Rental Income from Other Real Estate Holdings <i>(Continued)</i>	<ul style="list-style-type: none"> One Unit: Verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report</i>, Fannie Mae Form 1007/Freddie Mac Form 1000, <i>Single Family Comparable Rent Schedule</i>, and Fannie Mae Form 216/Freddie Mac Form 998, <i>Operating Income Statement</i>, showing fair market rent and, if available, the prospective lease. <p>History of Rental Income: Obtain the borrower's last two years' tax returns with Schedule E.</p>
Boarders of the Subject Property	<p>Rental income from boarders is only acceptable if the borrower has a two-year history of receiving income from boarders that is shown on the tax return and the borrower is currently receiving boarder income.</p> <ul style="list-style-type: none"> Obtain two years of the borrower's tax returns evidencing income from boarders and the current lease. <p>For purchase transactions, obtain a copy of the executed written agreement documenting their intent to continue boarding with the borrower.</p>
Investment Income	<p>Verify and document the borrower's investment income by obtaining tax returns for the previous two years and the most recent account statement.</p>
Capital Gains and Losses	<p>Consider capital gains and losses when determining effective income, when the individual has a constant turnover of assets resulting in gains or losses. Three years' tax returns are required to evaluate an earnings trend. If the trend:</p> <ul style="list-style-type: none"> Results in a gain, it may be added as effective income; or Consistently shows a loss, it must be deducted from the total income.

Asset Requirements – General Asset Requirements

Topic	FHA Accept
Earnest Money Deposits	<p>Verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1% of the sales price or is excessive based on the borrower's history of accumulating savings, by obtaining:</p> <ul style="list-style-type: none"> A copy of the borrower's cancelled check; Certification from the deposit-holder acknowledging receipt of funds; or Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit. Direct electronic verification by a third-party vendor. The borrower must have authorized mortgagee to verify assets and the date of the data contained in the completed verification must conform with FHA requirements at II.A.1.a.i.(A) (1). The data must show that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit. <p>If the source of the earnest money deposit was a gift, verify that the gift is in compliance with Gifts (Personal and Equity).</p>

Asset Requirements – General Asset Requirements

Topic	FHA Accept
Reserves	<p>Verify and document all assets submitted to Loan Product Advisor. Reserves refer to the sum of the borrower’s verified and documented liquid assets minus the total funds the borrower is required to pay at closing. Reserves do not include:</p> <ul style="list-style-type: none"> • The amount of cash taken at settlement in cash-out transactions; • Incidental cash received at settlement in other loan transactions; • Equity in another property; or • Borrowed funds from any source. <p>Required Reserves for Three- to Four-Unit Properties: Verify and document reserves equivalent to three months’ PITI after closing for three- to four-unit properties.</p>
Cash to Close	<p>Document all funds that are used for the purpose of qualifying for or closing a Mortgage, including those to satisfy debt or pay costs outside of closing. Verify and document that the borrower has sufficient funds from an acceptable source to facilitate the closing.</p>

Asset Requirements – Source Requirements for the Borrower’s Minimum Required Investment

Topic	FHA Accept
Source Requirements for Borrower’s Minimum Required Investment (MRI)	<p>The mortgagee may only permit the borrower’s MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the borrower’s MRI must not come from:</p> <ol style="list-style-type: none"> 1) The seller of the property; 2) Any other person or entity who financially benefits from the transaction (directly or indirectly); or 3) Anyone who is or will be reimbursed, directly or indirectly, by any party included in 1) or 2) above. <p>While additional funds to close may be provided by one of these sources if permitted under the relevant source of funds requirements above, none of the borrower’s MRI may come from these sources. The mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.</p> <p>Where the borrower’s MRI is provided by someone other than the borrower obtain documentation to support the permissible nature of the source of those funds.</p> <p>To establish that the Governmental Entity provided the borrower’s MRI in a manner consistent with HUD’s Interpretive Rule, document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the borrower’s MRI. In addition, the following must be obtained:</p> <ul style="list-style-type: none"> • A cancelled check, evidence of wire transfer or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided towards the borrower’s MRI from the Governmental Entity’s account; or • A letter from the Governmental Entity, signed by an authorized official, establishing that the funds provided towards the borrower’s MRI were funds legally belonging to the Governmental Entity, when acting in their governmental capacity, at or before closing. <p>The letter must demonstrate the funds legally belonged to the Governmental Entity at or before closing Failure of the Governmental Entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source.</p>

Asset Requirements – Source of Funds

Topic	FHA Accept
Checking and Savings Accounts	<p>If the borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the borrower has full access and use of the funds.</p> <p>Traditional Documentation:</p> <ul style="list-style-type: none"> • Obtain a written VOD and the borrower's most recent statement for each account, or. • Direct verification by a third-party vendor of the borrower's account covering activity for a minimum of the most recent available month. The borrower has authorized the mortgagee to verify assets and the date of the data contained in the completed verification is current within 30 days of the date of the verification. <p>Alternative Documentation: If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the mortgagee must obtain statement(s) for the most recent two months.</p>
Cash on Hand	<p>Verify that the borrower's cash on hand is deposited in a financial institution or held by the escrow/title company.</p> <p>Verify and document the borrower's cash on hand by obtaining an explanation from the borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.</p>
Retirement Accounts	<p>Obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the borrower's retirement accounts, the borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.</p> <p>If any portion of the asset is required for funds to close, evidence of liquidation is required.</p>
Stocks and Bonds	<p>Verify and document the existence of the borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.</p> <p>For stocks and bonds not held in a brokerage account the mortgagee must obtain a copy of each stock or bond certificate.</p>
Private Savings Clubs	<p>The mortgagee may consider private savings club funds that are distributed to and received by the borrower as an acceptable source of funds.</p> <p>Verify and document the establishment and duration of the club, and the borrower's receipt of funds from the club. The mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed.</p> <p>Obtain the club's account ledgers and receipts, and a verification from the club treasurer that the club is still active.</p>
Gifts	<p>Obtain a gift letter signed and dated by the donor and borrower that includes the following:</p> <ul style="list-style-type: none"> • Donor's name, address, and telephone number; • Donor's relationship to the borrower; • Dollar amount of the gift; and • A statement that no repayment is required.

Asset Requirements – Source of Funds

Topic	FHA Accept
<p>Documenting the Transfer of Gifts</p>	<p>Verify and document the transfer of gift funds from the donor to the borrower as follows:</p> <ul style="list-style-type: none"> • If the gift funds have been verified in the borrower’s account, obtain the donor’s bank statement showing the withdrawal and evidence of the deposit into the borrower’s account. • If the gift funds are not verified in the borrower’s account: obtain the certified check or money order or cashier’s check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor’s account. • If the gift funds are paid directly to the settlement agent: verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source. • If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the donor must provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction. <p>Regardless of when gift funds are made available to a borrower, the mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.</p>
<p>Secondary Financing Provided by Governmental Entities and HOPE Grantees</p>	<p>Obtain from the provider of any secondary financing:</p> <ul style="list-style-type: none"> • Documentation of the amount of funds provided to the borrower for each transaction; • Copies of the loan instruments; and • A letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured Mortgage, signed by an authorized official and containing the following information: <ul style="list-style-type: none"> ○ FHA case number for the first Mortgage; ○ Complete property address; ○ Name, address and Tax ID for the nonprofit; ○ Name of the borrower(s) to whom the nonprofit is providing secondary financing; ○ Amount and purpose for the secondary financing provided to the borrower; and ○ A statement indicating whether the secondary financing will close in the name of the Governmental Entity or in the name of the nonprofit and held by the Governmental Entity.
<p>Secondary Financing Provided by HUD-Approved Nonprofits</p>	<p>Obtain from the provider of any secondary financing:</p> <ul style="list-style-type: none"> • Documentation showing the amount of funds provided to the borrower for each transaction; and • Copies of the loan instruments. <p>Enter information into FHAC on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.</p>
<p>Secondary Financing Provided by Family Members</p>	<p>Obtain from the provider of any secondary financing:</p> <ul style="list-style-type: none"> • Documentation showing the amount of funds provided to the borrower for each transaction and source of funds; and • Copies of the loan instruments. <p>If the secondary financing funds are being borrowed by the family member and documentation from the bank or other savings account is not available, the family member must provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the mortgagee.</p>

Asset Requirements – Source of Funds, Continued

Topic	FHA Accept
Secondary Financing Provided by Private Individuals and Other Organizations	Obtain from the provider of any secondary financing: <ul style="list-style-type: none"> • Documentation showing the amount of funds provided to the borrower for each transaction; and • Copies of the loan instruments.
Collateralized Loans	Verify and document the following: <ul style="list-style-type: none"> • Existence of the borrower’s assets used to collateralize the loan, • The promissory note securing the asset, and • The loan proceeds.
Retirement Account Loans	Verify and document the existence and amounts in the borrower’s retirement accounts and the outstanding loan balance.
Disaster Relief Loans	Verify and document the promissory note.
Disaster Relief Grants	Verify and document the borrower’s receipt of the grant and terms of use. Any grant of the borrower’s MRI must also comply with the additional requirements set forth in source requirements for the borrower’s MRI.
Federal Home Loan Bank Homeownership Set-Aside Grant Program	Verify and document the following: <ul style="list-style-type: none"> • Borrower’s receipt of the grant and terms of use. • That the retention agreement required by the FHLB is recorded against the Property and results in a deed restriction, and not a second lien. The retention agreement must: <ul style="list-style-type: none"> ○ Provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the borrower; ○ Include language terminating the legal restrictions on conveyance if title to the property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and ○ Comply with all other FHA regulations.
Sale of Personal Property	Obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.
Sale of Real Property	Verify and document: <ul style="list-style-type: none"> • The actual sale and the net sale proceeds by obtaining a fully executed closing disclosure or similar legal document. • That the transaction was arms-length, and that the borrower is entitled to the net sale proceeds.
Employer Assistance	Relocation Guaranteed Purchase: If the borrower is being transferred by their company under a guaranteed sales plan: <ul style="list-style-type: none"> • Obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt. • Verify and document the agreement guaranteeing employer purchase of the borrower’s previous residence and the net proceeds from sale. Employer Assistance Plans: Verify and document the borrower’s receipt of assistance. If the employer provides this benefit after settlement, verify and document that the borrower has sufficient cash for closing.

Asset Requirements – Source of Funds, Continued
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Topic	FHA Accept
Real Estate Commission from Sale of a Subject Property	Verify and document that the borrower, or family member giving the commission as a gift, is a licensed real estate agent, and is entitled to a real estate commission from sale of subject property being purchased.
Sweat Equity	<p>Materials furnished: Obtain evidence of the source of funds and the market value of the materials.</p> <p>Labor: Verify and document that the work will be completed in a satisfactory manner. Obtain evidence of contributory value of the labor either through an appraiser's estimate, or a cost-estimating service.</p> <p>Labor on existing construction: Obtain an appraisal indicating the repairs or improvements to be performed (Any work completed or materials provided before the appraisal are not eligible).</p> <p>Labor on proposed construction: Obtain the sales contract indicating the tasks to be performed by the borrower during construction.</p>
Trade Equity	<p>The amount of the borrower's equity contribution is determined by:</p> <ul style="list-style-type: none"> • Using the lesser of the property's appraised value or sales price; and • Subtracting all liens against the property being traded, along with any real estate commission. <p>If the property being traded has an FHA-insured Mortgage, assumption processing requirements and restrictions apply.</p> <p>The mortgagee must obtain a residential appraisal report complying with FHA appraisal policy to determine the property's value. The mortgagee must also obtain the Closing Disclosure or similar legal document to document the sale of the property.</p>
Rent Credit	Obtain the rent with option to purchase agreement, the appraiser's estimate of market rent, and evidence of receipt of payments.

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FHA Resources

- [HUD Handbook 4000.1](#)
- [HUD.GOV U.S. Department of Housing and Urban Development webpage](#)

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