WHEDA Advantage
FHA Underwriting Guide

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1.00 Introduction

This guide provides our lending partners with the information needed to understand WHEDA's underwriting requirements and policies for its FHA Advantage loans.

Information contained in this Guide is in compliance with FHA underwriting requirements and policies.

When the Guide is silent on a requirement or policy, refer to the HUD Handbook 4000.1 for additional guidance.

Lenders who submit loans to WHEDA should reference this Guide, the WHEDA FHA Matrix, and the WHEDA Policy and Procedures Manual for additional guidance.

2.00 Underwriting Philosophy

Although WHEDA is exempt from the Ability to Repay (ATR) and Qualified Mortgage (QM) regulations we believe that each loan application should be evaluated on its own merits to determine the likelihood the borrower will repay their mortgage debt.

Mortgage loans should not be automatically approved based solely on the recommendation of an automated underwriting system (AUS). Underwriting decisions should be based on the evaluation of all the layers of risk using common sense, experience and sound judgment. The presence of individual risk factors found in the loan file do not necessarily threaten the borrower's ability to obtain homeownership. However, when multiple layers of risks are present, and there are no compensating factors or positive offsets to the risks, their cumulative effect could dramatically increase the likelihood of default and foreclosure. Each borrower deserves and equal and fair consideration based on their unique circumstances provided the loan as a whole presents an acceptable risk.

The evaluation should include an assessment of:

- The borrower's willingness and ability to repay debt as demonstrated by the borrower's credit and employment/income history, assets and liabilities.
- The borrower's commitment to the purchase (equity and down payment).
- The appraisal report (supported value of the collateral, market conditions, salability).
- WHEDA, Investor and regulatory compliance.

Our guides and matrices establish boundaries of acceptable risk.

3.00 Mortgage Eligibility

WHEDA purchases fixed rate mortgages (FRM) secured by properties (Refer to Section 11.02

for eligible property types) that are the borrower's principal residence. Qualified borrowers do not have to be a first-time homebuyer to be eligible for a FHA Advantage mortgage, however, the total household income must be less than or equal to the WHEDA FHA Income Limits and the purchase price of the property must be less than or equal to the WHEDA FHA Loan Limits

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3.01 LTV/CLTV/HCLTC (9/14/2015)

For minimum requirements for down payment and maximum allowable LTV/CLTV/HCLTV requirements refer to the FHA Product Matrix

3.02 Purchase Transaction (10/29/15)

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a one- or two –unit property located in the State of Wisconsin.

3.03 Minimum Reserve Requirements (9/14/15)

All Channels Channel:

AUS Loans - DU®/DO® and LP® will determine the reserve requirement

Broker and Mini-Correspondent Channels:

Manually underwritten - Refer to the FHA Product Matrix

Reserves do not include:

- incidental cash received at settlement in other loan transactions;
- gift funds;
- equity in another property; or
- borrowed funds from any source.

3.04 Escrow Accounts (9/14/15)

Escrow accounts for taxes, property and flood insurance premiums and monthly mortgage insurance premiums are required for all loans.

If a special assessment levied against the property was not paid at loan closing, the borrower's monthly payment must include an amount sufficient to pay the assessment by the time it comes due.

4.00 Borrower Eligibility

This Chapter provides the general requirements needed for a borrower to be eligible for a WHEDA FHA Advantage loan.

4.01 Income Limits (9/14/15)

The combined gross annual income of all adults intending to occupy the property cannot exceed the WHEDA FHA Income Limits for the county in which the property is located. Refer to Chapter 6-Calculating Compliance Income for additional guidance.

Good to Know

Compliance income applies to all adult occupants.
The number of occupants may be different than the number of loan applicants.

4.02 Citizenship (6/24/21)

All borrowers must have a valid Social Security Number and be one of the following:

- U.S. citizen
- Permanent residents (I-551)
- Non-permanent residents who are eligible to work in the United States provided the borrower provides documentation outlined in the HUD Handbook 4000.1.

If the validity of the Social Security Number is in question, the lender must verify and validate the Social Security Number through one of the following:

- Social Security Administration
- Acceptable third-party vendor

4.03 Child Support/Maintenance (9/14/15)

Arrearages reported on the State of Wisconsin Support Lien Docket must be paid in full prior to closing.

4.04 Principal Residence (9/14/15)

The property must be the borrower's principal residence. The borrower must occupy the subject property within 60 days of loan closing and maintain occupancy for the life of the loan.

4.05 Home Buyer Education and Counseling (09/08/20)

A purchase of a one or two unit property requires at least one borrower signing the Note to complete pre-purchase home buyer education and counseling.

If all borrowers on the loan are relying solely on nontraditional credit to qualify, all borrowers must complete pre-purchase home buyer education and counseling.

Acceptable sources of Home Buyer Education and Counseling

WHEDA accepts education from the following providers:

- Education | Fannie Mae
- Education from a provider that aligns with the National Industry Standards for Homeownership Education

Costs set by the Home Buyer Education provider must be included in disclosures.

Provide a copy of the Home Buyer Education completion certificate reflecting the borrower's name, the name of the entity and/or the name of person providing the education and date completed. The education must have been completed within 12 months of the application date.

4.06 Landlord Education (9/20/2024)

If the purchase is a 2-unit property, at least one borrower must also complete an approved landlord education course.

Below are links to acceptable online Landlord Education provided by Mortgage Insurance Companies:

- https://mortgage.archgroup.com/us/training/homebuyer-education/

Below are links to acceptable Landlord Education providers:

- https://www.naca.com/landlord-training/
- https://www.landlordcert.org/
- City of Milwaukee Landlord Training
  - Borrowers can contact a home buying counseling agency in their area or a local housing authority to find out if Landlord training is offered.
- Fannie Mae's Becoming a landlord
  - After completion, Buyer must meet with a local home counselor or their lender to review the self-examination and receive a signed certificate of completion.

The education must have been completed within 12 months of the application date.

4.07 Guarantors and Co-Signors (9/14/15)

A guarantor or co-signor is not allowed, however exceptions can be made based on a borrower's particular circumstance. Exceptions require a manual underwrite by WHEDA.

4.08 Non Occupant Co-Borrowers (9/14/15)

Non-occupant Co-Borrowers are not allowed.

5.00 Income and Employment Documentation

The lender is required to document a 2 year history of stable employment and a reliable stream of income.

Income and employment documentation must be no more than 120 days old on the Note date. The lender must update the documentation if it has expired.

5.01 Paystub (9/14/15)

The paystub must be dated no earlier than 30 days prior to the initial loan application date, reflect a minimum 30 days of income, identify the name of the employer and the borrower, and include all year-to-date earnings. The paystub must include sufficient information to appropriately calculate income. If not, additional documentation must be provided.

5.02 Request for Verification of Employment (VOE) (9/14/15)

If the borrower has been on their present job for less than 1 year, provide a Verification of Employment or a third-party vendor employment verification. The VOE must not be addressed to an individual. It must include wage rate, base wage rate hours and other income hours per week, year-to-date earnings, date of employment, frequency of payment and previous year earnings.

5.03 W-2 Forms (9/14/15)

IRS W-2 forms must cover the most recent two year period and clearly identify the borrower as the employee. The sum of the W-2's must match the wages earned on the borrower's federal tax transcripts.

5.04 Tax Transcripts (9/14/15)

The lender must execute IRS Form 4506-T and provide a copy of the borrower's tax transcripts for the most recent two year period.

Transcripts will be reviewed for compliance income, self-employment activity, unreimbursed employee expenses, income from assets and claimed mortgage interest.

Refer to Section 7.22 for Self Employed, Corporations , S-Corp and Partnerships for additional guidance.

5.05 Verbal Verification of Employment (VVOE) Requirements (9/14/15)

A VVOE for all active employment for each borrower must be obtained and dated within 10 business days prior to the Note date.

Hourly, salary and commission income employees

Verify and document the employer's phone number, and if possible, their address, independently through the phone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

The VVOE should include:

- The name and title of the person who confirmed the employment,
- The date of the call, and
- The source of the phone number, if the internet – provide the website address
- Employment status

If a VVOE cannot be obtained, one of the following methods may be used:

- The Work Number Website
  If the verification is obtained from The Work Number website, the 10-day business period is measured from the date of the Client's request to the vendor, not the date the information was updated in the vendor's database.
- A written verification of employment sent directly to the employer

Self-employed borrowers

Verify the existence of the borrower's business within 30 calendar days prior to the Note Date through one of the following methods:

- From a third-party such as a CPA, regulatory agency, or the applicable licensing bureau, if possible
- By a phone listing and address for the borrower's business using a telephone book, internet, or directory assistance
- By verbal contact: Document the source of the information, and document the name and title of the lender's employee who obtained the information

Seasonal employment

If verbal verification occurs during the off season and the borrower is currently not working for that business, the following documentation is required:

- obtain independent verification that the business exists,
- verify borrower previously worked for that business as stated on the loan application, and
- verify borrower is eligible to return

6.00 Calculating Compliance Income

Calculating total household income is a key to determining if the borrowers are income compliant for the WHEDA Advantage program.

Compliance income is the anticipated income of anyone age 18 or older who intends to occupy the property, regardless of their relationship to the borrower. This may include adult children, parents, aunts, uncles, grandparents, partners, companions, roommates, etc.

Compliance income is generally calculated using the greater of:

- Current gross income from all verified sources projected 12 months forward, or
- Gross income from all sources earned in the last tax year

Good to Know

I) Compliance income is not the same as qualifying income.
Submit Form 29 - Compliance Income Evaluation for a WHEDA compliance review.

II) Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented for household income compliance.

Lenders should review and compare information on the loan application to other documents in the loan file such as paystubs and tax returns to identify other potential occupants.

Refer to Section 4.1-Income Limits for additional guidance.

6.01 Income Inclusions (9/14/15)

- Earned income of all occupants over the age of 18
- Unearned income of all occupants under the age of 18
- Social Security Income (SSI)
- Child support
- Alimony
- Pension/retirement
- Disability Income
- Public Assistance
- Interest and dividend income on funds retained after closing
- Self-employment income (adding back depreciation, depletion, meals and entertainment, and business use of home). If a business is operated at a loss, such loss may not be used to offset income generated from other sources.
- Rental income being used for qualifying on a 2-unit purchase. Refer to Section 7.18 Rental Income from Subject Property for additional guidance.
- Rental Income from Other Real Estate Owned
- Mortgage Credit Certificate (MCC) income being used for qualifying income

6.02 Income Exclusions (9/14/15)

- Earned income for all occupants under the age of 18
- Foster care income
- Food Share Wisconsin
- Non-recurring payments from:
    - Inheritances
    - Insurance settlements
    - Lottery winnings
    - Gambling winnings
    - Capital gains
    - Settlements for personal loss
    - One-time signing bonus

7.00 Calculating Qualifying Income

A key to determining the borrower's ability to repay their mortgage loan debt is determining all stable and predictable sources of income that are likely to continue into the future.

A minimum history of two years of employment income is required, however, income that has been received for a shorter period of time may be considered as acceptable income, as long as there are positive factors to offset the shorter income history. For example, a borrower who graduated from college or tech school and is currently employed in a field that applies to their educational degree.

Income for Borrowers with gaps in employment of six months or more (an extended absence), may be considered as qualifying income if the following can be verified and documented:

- 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.

Good to Know

Qualifying income is not the same as Compliance income.

Refer to Section 6.0 Calculating Compliance Income for additional guidance.

7.01 Base Pay Income (9/14/15)

For employees who are salaried or paid hourly and whose income is consistently earned, use the current salary or hourly rate to calculate qualifying income.

For employees who are paid hourly and whose hours vary, average the income over the previous two years. If the mortgage can document an increase in pay rate, a 12 month average may be considered.

7.02 Bonus and Overtime Income (4/08/19)

Bonus and overtime income must show a history of at least 24 months with the current employer, however, bonus and overtime income that has been received for no less than 12 months may be considered as acceptable income provided the borrower's loan application demonstrates positive factors that reasonably offset the shorter income history. Bonus and Overtime must be averaged over a two-year period.

If the income decreases by 20 percent or more from the previous year, income must be averaged from the current year.

7.03 Commission Income (9/14/15)

Commission income must show a history of at least 12 months with the current employer.

If commission income represents more than 25% or more of the borrower's total annual income, a copy of the borrower's tax transcripts and W2 forms covering the two most recent tax year period must be provided.

Qualifying income is the lessor of

- The average net commission income earned over the previous two years, or the length of time commission income has been earned, if less than two years; or
- The average net commission income earned over the previous one year

Unreimbursed expenses must be subtracted from the gross commission income.

7.04 Alimony or Child Support (9/14/15)

Alimony and child support must continue for at least three years after the date of the mortgage loan application. Non-taxable child support income can be adjusted upward by the greater of 15 percent or the appropriate tax rate for the income amount based on the borrower's tax rate for the previous year. If the borrower was not required to file a federal return the previous year, 15 percent may be used.

A full copy of the divorce decree, separation agreement, or other written legal agreement must be provided and state the amount that is being awarded and the duration it will be received.

Document no less than a three month history. If the support payments are being made voluntary, 12 months cancelled checks are required.

If payment amounts are inconsistent with the amount court ordered or are sporadic, the income is not acceptable for the purpose of qualifying.

7.05 Automobile Allowance (9/14/15)

The borrower must have received payments for at least two years. All associated business expenses must be included in the calculation of the borrower's total debt-to-income ratio.

If the borrower files an Employee Business Expenses (IRS Form 2106) or IRS Form 1040, schedule C:

- Funds in excess of the borrower's monthly expenses are added to the borrower's monthly income, or
- Expenses in excess of the monthly allowance are included in the borrower's monthly debt obligations

If the borrower does not report the allowance on either IRS Form 2106 or Schedule C, the full amount of the allowance is added to the borrower's monthly income, and the full amount of the lease or auto loan payment is added to the borrower's monthly debt obligation.

7.06 Boarder Income (9/14/15)

Rental payments that a borrower receives from one or more individuals who reside with the borrower can be considered in an amount up to 30% of the total gross income that is being used to qualify the borrower for the purchase of a one unit property.

The boarder is someone who would not be obligated on the mortgage debt and may or may not be related to the borrower.

Document the boarder has lived with and paid rent to the borrower for the last 12 months by providing the following:

- A copy of the individual's driver's license, bills, bank account statements, etc. evidencing the boarder to demonstrate a history of shared residency, and
- Copies of cancelled rent checks for the last 12 months

Payment of rent by a boarder directly to a third party is not acceptable.

7.07 Disability Income (9/14/15)

VA Disability

For VA disability benefits, VA Form 26-8937 (Verification of Benefits) must be provided showing the amount of the assistance and the expiration date, if any, and one of the following documents:

- Federal tax returns; or
- The most recent bank statement evidencing receipt of income from the VA.

Private Disability

Disability income must be verified with a copy of the disability policy or benefits statement from the provider, i.e. insurance company, employer, or other qualified disinterested party. It does not apply to disability income that is received from the Social Security Administration (SSA).

The policy or statement must verify the following:

- The borrower's current eligibility for the long term benefit,
- The amount and frequency of the disability payment, and
- If there is a termination or modification date.

7.08 Employment Offers or Contracts (9/14/15)

A copy of the borrower's employment offer or contract can be used to determine the borrower's income for qualifying. Verify and document the existence and amount of expected income with the employer in writing and that it is guaranteed to begin within 60 days of the mortgage closing.

7.09 Foster Care Income (9/14/15)

Document a two year history of providing and receiving foster care income from a state or county agency. If the income does not represent more than 30% of the borrower's total gross income, it can be considered as qualifying income.

7.10 Housing Choice Voucher (Section 8) (9/14/15)

Each municipality's Housing Choice Voucher program must be approved by WHEDA.

Provide a copy of the Housing Choice Voucher and add the amount of the benefit to qualifying income. There is no requirement that the income history be documented prior to the loan application or evidence it will continue for any period of time from the date of the application.

If the income is verified as non-taxable, it may be grossed up by the greater of, 15 percent or the appropriate tax rate for the income amount based on the borrower's tax rate for the previous year. If the borrower was not required to file a federal return the previous year, 15 percent may be used

7.11 Housing or Parsonage Income (9/14/15)

Housing or Parsonage allowance may be considered as qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but cannot be used to offset the monthly mortgage payment

7.12 Mortgage Credit Certificate (MCC) (9/14/15)

The monthly Mortgage Credit Certificate (MCC) benefit may be treated as an addition to the borrower's monthly income using the following calculation:

[(Mortgage Amount) x (Note Rate) x (MCC %)] ÷12 = Amount added to borrower's monthly income.

The MCC %, Tax Certificate Percentage Rates, are as follows:

- 25% Statewide
- 40% Qualified Military Veteran
- 40% Property is located in a HUD designated target area

The monthly MCC benefit cannot be used to reduce the PITI.

7.13 Social Security Income (9/14/15)

Social Security and Social Security Disability income must be documented with a current Social Security Administrator's (SSA) award letter or proof of current receipt.

Supplemental Social Security income must be documented with a current SSA award letter and proof of current receipt.

The non-taxable portion of the Social Security income can be adjusted upward by the greater of 15 percent or the appropriate tax rate for the income amount based on the borrower's tax rate for the previous year. If the borrower was not required to file a federal return the previous year, 15 percent may be used

If a borrower is eligible to receive Social Security benefits on behalf of a family member, a spouse, ex-spouse, dependent parents, a minor child or disabled child the following is required:

- A copy of the SSA award letter,

- Proof of current receipt, and
- Verification of a three year continuance (e.g. verification of the beneficiary's age)

7.14 Retirement Income (9/14/15)

Document regular and continued receipt of the income. Verify receipt by providing one of the following:

- Award letter
- Federal income tax transcripts
- IRS W-2 or 1099 forms
- Proof of current receipt

If the retirement income is a distribution from a 401(k), IRA or Keogh retirement account, verify the income will continue for at least three years after the date of the loan application.

The borrower must have unrestricted access to the accounts without penalty. If the assets are in the form of stocks, bonds or mutual funds, 70% of the value, after any applicable costs for the subject transaction, must be used to determine the number of distributions remaining.

7.15 Military Income (9/14/15)

Military personnel who are full-time may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance and proficiency pay are acceptable sources of income.

Provide evidence a particular type or types of pay (hazard pay, rations, clothing allowance, etc.) will continue to be received in the future.

Leave and Earning Statement (LES) must indicate the Expiration Term of Service date. If such date is within the first 12 months of the mortgage, a signed letter from the borrower stating their intent to re-enlist is required.

Military reserve pay may be used as qualifying income if it can be verified as having been uninterrupted for the previous 2 years and has a strong likelihood of continuation.

VA education benefits cannot be used as qualifying income.

7.16 Seasonal and Seasonal Unemployment Income (9/14/15)

A minimum 2 year history of seasonal employment is required. Verify the borrower has worked with the same employer or the same line of seasonal work.

A minimum 2 year history of seasonal unemployment income is required. Provide a copy of the borrower's two most current federal tax transcripts.

The unemployment income must clearly be associated with reoccurring seasonal layoffs.

7.17 Secondary Employment Income (9/14/15)

Secondary employment (part-time or full-time) is income the borrower earns from a second job or multiple jobs in addition to their primary job.

A minimum history of two years of uninterrupted secondary employment income is required.

7.18 Rental Income from the Subject Property (9/14/15)

Rental income from the second unit of the subject property may be used as qualifying income.

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.

To calculate qualifying rental income from the subject property where the borrower does not have a history of rental income, use the lesser of:

- the monthly operating income reported on Freddie Mac Form 998; or
- 75 percent of the lesser of:
    - fair market rent reported by the appraiser; or
    - the rent reflected in the lease or other rental agreement.

7.19 Rental Income from Other Real Estate Owned (11/09/18)

Calculating rental income

The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.

When Schedule E is used to calculate qualifying rental income, the lender must add back any listed depreciation, interest, homeowners' association dues, taxes, or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.

If the property was in service:

- for the entire tax year, the rental income must be averaged over 12 months; or
- for less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.

When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the lender must calculate the rental income by multiplying the gross monthly rent(s) by 75%. (This is referred to as "Monthly Market Rent" on the Form 1007.) The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.

Treatment of the Income (or Loss)

If the rental income (or loss) relates to a property other than the borrower's principal residence:

- If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.

- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
- The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

7.20 Temporary Leave Income (9/14/15)

Temporary leave from work is generally for a short period of time and for reasons such as maternity or parental leave, short-term medical disability leave, or other temporary leave that is acceptable by law or by the borrower's employer. Borrowers may or may not be paid during their absence from work.

If the borrower will be on temporary leave at the time of closing and the borrower's income is needed to qualify for the loan, the following requirements apply:

- Document a two year history of employment and stable income
- A letter from the borrower confirming their intent to return to work
- Verification from the borrower's employer or third party designee that specifies the duration of the temporary leave or the expected or agreed upon return date.
- Verification of the amount of regular employment income the borrower received prior to the temporary leave.

If the borrower's return to work date is prior to the first mortgage payment date, the borrower's regular employment income will be used for qualifying.

If the borrower will not return to work as of the first mortgage payment date, use the lesser of the borrower's temporary leave income, if any, or the regular employment income.

7.21 Tip Income (4/08/19)

Tip income must show a history of at least 24 months with the current employer however, tip income that has been received for no less than 12 months may be considered as acceptable income provided the borrower's loan application demonstrates positive factors that reasonably offset the shorter income history. Tip income must be averaged over the previous two years.

If the income decreases by 20 percent or more from the previous year, the income must be averaged from the current year.

Tip income should be entered into DU®/DO® in the Tip Income data field.

7.22 Unreimbursed Business Expenses (9/14/15)

Calculate a 24-month average of unreimbursed business expenses reflected on IRS Form 2106 of the borrower's federal income tax transcripts and reduce monthly qualifying income. If the borrower recognizes "actual expenses" rather than standard mileage rate, the lender must analyze the "actual expenses" section of IRS Form 2106 checking for lease payments. Add back actual lease payments to ensure the expense is recognized only once.

If the borrower has claimed automobile depreciation on Form 2106, this expense can be added back to the borrower's income. Vehicle depreciation can be calculated one of two ways – by using the standard mileage deduction or actual depreciation expenses.

If the borrower used the standard mileage deduction, multiply the business miles driven by the IRS depreciation factor for the appropriate year and add the calculated amount to the borrower's total income. If the borrower claimed the actual depreciation expense, add this amount to the borrower's total income.

7.23 Self-Employment, Corporations, Partnership and S-Corp Income (9/14/15)

Average the net income from the prior two years personal and business tax transcripts. If the income for the most recent year shows a substantial decline, the income from that year will be used. A sharp decline in the most recent year will be closely reviewed to determine if the business has the ability to support the borrower's debt obligations.

The lender must perform a written analysis of both the borrower's personal income, including the business income or loss, reported on the borrower's personal income tax returns and the borrower's business income when the borrower is relying solely on the income for qualifying.

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.

If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

The lender is not required to prepare a written evaluation of self-employment income when the borrower is qualified using only salaried income from a primary job and self-employment income is from a separate and secondary source of income.

7.24 Business Operated at a Loss (9/14/15)

Negative cash flow from a business reduces other qualifying income. If the business is operated at a loss, such loss may not be used to offset income generated from other sources when determining compliance with income limits.

8.00 Assets

Verification of assets is a key component in determining the funds for the borrower's down payment, closing costs and/or reserves come from an acceptable source. This section provides guidance on the acceptable sources and required documentation.

8.01 Depository Accounts (4/08/19)

The lender can use the following types of documentation to verify a borrower has sufficient funds for down payment, closing costs and/or reserves.

- The Verification of Deposit (VOD). The VOD must be requested directly from the depository by the lender and contain the following information:
    - The borrower, clearly identified as the account holder,
    - Account number,
    - Date opened,
    - Current balance,
    - 2-month average balance, and
    - Signed and dated by a representative of the depository institution.

- Copies of bank statements. If a VOD is not obtained, a statement showing the previous month's balance for the most recent month is required. If the previous month's balance is not shown, statements for the most recent two months is required. The statements must contain the following information:
    - The borrower, clearly identified as the account holder,
    - Account number,
    - Time period covered by the statement,
    - Transaction history –Deposits, withdrawals, purchases and sales transactions, as applicable
    - Beginning and ending account balances, and
    - Institution name and address

If the lender is the holder of the borrower's account, the lender can provide a printout from its system, but is must contain all of the required data above and be signed by a representative of the lender who is not involved in the transaction.

All non-borrowing parties on the account must provide a written statement that the Borrower has full access to use of the funds.

Large deposits into a depository account or newly opened account may be an indication of borrowed funds. Deposits exceeding 1% of the sales price, or are excessive based on the borrower's history of accumulating savings, must be sourced.

Good to Know

Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented to determine household income compliance.

8.02 Gifts (4/05/19)

An acceptable gift donor may be a:

- Family member
- The borrower's employer or labor union
- A close friend with a clearly defined and documented interest in the Borrower.
- A charitable organization
- An acceptable governmental agency

All gift funds must be verified and received by the borrower prior to the closing. Provide the following:

- Completed and signed Gift Affidavit Form 11.
- Verify receipt of the gift funds as follows:
  - 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 evidencing payment to the Borrower or settlement agent, and the donor's bank statement evidencing sufficient funds for the amount of the gift.

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 the funds were borrowed from an acceptable source, not from a party to the transaction.

Cash-on-hand from the donor is not an acceptable source of gift funds.

Surplus gifts funds cannot be considered as cash reserves.

8.03 Gifts of Equity (9/23/15)

A gift of equity is allowed if the borrower is purchasing a family member's primary residence. Provide the following:

- Completed and signed Gift Affidavit Form 11
- , with a notation of "gift of equity"

The gift of equity must be reflected on the Loan Estimate and the Closing Disclosure.

All other transactions involving a party who has an Identity of Interest in the transaction must adhere to FHA guidelines HUD Handbook 4000.1, Chapter 4(F)(4)(a).

8.04 WHEDA DPA Programs (07/1/23)

DPA and Capital Access Advantage DPA are second mortgage programs administered by WHEDA, which are available only to a qualified WHEDA first mortgage borrower. Both the Easy Close DPA and Capital Access Advantage DPA are approved second mortgages by our end investors and mortgage insurers.

Refer to the program matrices for a quick look at the terms and requirements:

Easy Close DPA Matrix

Capital Access DPA Matrix

Easy Close DPA

Easy Close Loan Terms and Eligibility Requirements

- Maximum loan amount is 6% of the lessor of the:
  - purchase price[(1)], or
  - appraised value
- Minimum loan amount is $1,000
- 10-year amortization period
- Fixed interest rate
- The borrower must qualify for a WHEDA first mortgage

[(1)] Loan amounts for the 1st and/or 2nd mortgages may need adjusting to ensure CLTV and/or cash-back requirements are met.

Closing the Easy Close

- Refer to the Section 9.03 Preparing the Easy Close DPA Documents -WHEDA Policy and Procedures Manual for additional guidance.
- The Easy Close DPA closing documents are available on the website in a pdf editable format.

Capital Access Advantage DPA

Capital Access Advantage Loan Terms and Eligibility Requirements

- Loan amount is $7,500
- 0.00% APR
- No monthly payments, must be repaid when the first mortgage is paid in full or refinanced
- Must meet Capital Access Advantage Capital Access DPA Income and Purchase Price limits
- The borrower must qualify for a WHEDA first mortgage.

Closing the Capital Access Advantage

- Refer to the Section 9.04 Preparing the Capital Access DPA Second Mortgage Documents-WHEDA Policy and Procedures Manual for additional guidance.
- The Capital Access Advantage DPA closing documents are available on the website in a pdf editable format.

8.05 Earnest Money (9/14/15)

A copy of the cancelled earnest money check must be provided in order to give a credit towards the funds for closing.

Gift funds used towards earnest money must be documented.

8.06 Down Payment Assistance (DPA) (01/28/19)

Down Payment Assistance may be an acceptable source of down payment. The down payment assistance provider must be a HUD approved non-profit agency or a government entity and must comply with the Minimum Required Investment and Secondary Financing requirements in HUD Handbook 4000.1.

Gift vs. Secondary Financing

Lenders should use the following guidance for determining if certain down payment assistance will be considered a gift or secondary financing.

- **Gift** should be used in instances where the DPA does not file a mortgage, but files a retention agreement. The amount should be entered in the asset section. As a result, the combined-loan-to-value will not be affected.
- **Secondary Financing** should be used in instances where the DPA files a mortgage. The amount should be entered a in the subordinate financing section. As a result, the combined-loan-to-value will be affected.

8.07 Retirement Funds (9/14/15)

Vested funds from an individual retirement account (IRA/SEP/Keogh accounts) and tax favored retirement savings accounts (401K accounts) are acceptable sources of funds for down payment, closing costs and reserves.

Calculate 60% of the vested balance when calculating available cash to close and reserve funds if the withdrawal has not yet occurred.

In order for retirement funds to be considered as effective reserves, retirement accounts must be vested and allow withdrawals for reasons other than employment termination.

8.08 Cash Value of Life Insurance (9/14/15)

Document the cash value of the life insurance and receipt of the funds by one of the following:

- A copy of the check from the insurer, or
- A copy of the payout statement from the insurer.

8.09 Sale of a Personal Asset (9/14/15)

Proceeds from the sale of a personal asset (automobile, boat, land,) is acceptable. The purchaser of the asset cannot be an interested party in the sales transaction. Provide the following:

- Proof of ownership,
- Current fair market value of the asset,
- Purchase Agreement/Bill of sale or copy of the transferred title, and
- Verification of receipt of funds

8.10 Tax Refund (9/14/15)

A copy of the borrower's federal and/or State tax returns must be reviewed to determine the anticipated amount of the refund. Document the receipt of the funds by providing proof of deposit into the

borrower's account.

8.11 Borrowed Funds (9/14/15)

Proceeds from a loan secured by the borrower's own asset is acceptable.

The loan must be fully amortized and repayment must be on a monthly basis. The term of the loan must be reasonable based on the life of the asset.

Document the loan transaction by providing:

- Proof of ownership of the asset,
- Current fair market value of the asset,
- A copy of the executed Note, and
- Verification of receipt of funds

8.12 Cash–on-Hand (9/14/15)

Cash-on-hand is an acceptable source of funds for the borrower's down payment and/or closing costs and/or prepaid expenses.

The lender must verify and document the following:

- The borrower customarily uses cash for expenses. The amount of funds saved should be consistent with the borrower's earnings capacity.
- Funds saved have been on deposit with a financial institution prior to closing.
- The borrower must provide a written explanation disclosing the source of the funds and the borrower must state in the explanation that the funds have not been borrowed.
- The borrower's credit report shows limited or no use of credit cards, personal or mortgage loans and shows a limited or no use of depository accounts with a financial institution.

Cash on hand may not be used to fund the borrower's reserve requirement.

8.13 Repayment of Debt (9/14/15)

Funds received from repayment of loans to family and friends must be verified and reconciled with the borrower's ability to have made such loans.

8.14 Interested Third Party Contributions (IPC) (9/14/15)

An interested party may contribute up to 6% of the purchase price for the borrower's closing costs and prepaid escrows

An interested party, other than a family member, may not contribute to the down payment.

Good to Know

The appraiser must be provided with the fully executed purchase contract and other information concerning all IPCs, seller contributions, down payment assistance (including Easy Close DPA), and gifts. The appraiser must specifically break out the type of contribution in the Contract section of the Appraisal Report.

8.15 Lease with Option to Purchase (9/14/15)

When a borrower has entered into a lease agreement with an option to purchase at a predetermined

sales price with a provision for rent credit, the credit may be used towards the borrower's down payment.

Provide the following:

- Lease/Purchase Agreement,
- Cancelled checks and/or bank statements for the duration of the lease, and
- Fair Market rent documented by an independent appraiser under the following terms:

The portion of the rent payment that exceeds the fair market rent is eligible towards the down payment and /or closing costs.

A rent credit that is less than or equal to fair market rent is considered an Interested Party Contribution. Refer to Section 8.14 Interested Third Party Contributions for additional guidance.

8.16 Stocks, Stock Options, Bonds and Mutual Funds (9/14/15)

Stocks, Bonds and Mutual funds are acceptable sources of funds for down payment, closing costs and effective reserves.
If using for down payment and/or closing costs, document the borrower's ownership, vested balances and receipt of funds realized from the sale of the asset. If the value of the asset is 20% or more than the amount needed for down payment and closing costs, no documentation of the sale is required.

For stocks and bonds not held in a brokerage account, a copy of each stock or bond certificate must be obtained.

If used for reserves, 100% of the value of the assets may be considered.

8.17 Net Proceeds from the sale of a current residence (9/23/15)

Provide a copy of the fully executed sales contract of the current residence. The sale must be an arms-length transaction

A copy of the fully executed Closing Disclosure will be required indicating the final net proceeds due to the borrower.

9.0 Credit

A borrower's credit history is an account of how well the borrower handled credit in the past and it is a good indicator of how the borrower is likely to handle their credit in the future. Older established credit accounts that may have zero balances have a more positive impact on the borrower's credit profile than a borrower who has a thin or newly established accounts.

Borrowers are required to have at least three qualified trade-lines. Refer to Section 9.05 Qualified Trade Lines

for additional guidance.

9.01 Credit Report (9/14/15)

Obtain a triple-merged credit report for all borrowers, including a non-applicant spouse, if applicable.

The credit report must be dated no more than 120 days from Note date. If the credit report is stale dated, the lender must update the report.

9.02 Credit Scores (9/14/15)

The credit report should include 3 credit scores for each borrower. The credit score selected for underwriting and eligibility will be determined as follows:

- One borrower, use the middle score
- More than 1 borrower, determine the middle score for all borrowers and use the lowest middle score
- One borrower with 3 credit scores and 1 borrower without a score use the middle score of the borrower with scores
- Use the lower score if only 2 scores are generated

Refer to the FHA Product Matrix for minimum credit score requirements.

9.03 Length of Credit History (9/14/15)

The borrower's credit report must have 2 years of active credit history with a minimum of three 12-month qualified trade-lines. Applications with insufficient trade-lines (thin credit file) may be supplemented with alternative credit references. Refer to Section 9.11 Non Traditional Credit and Section 9.05 Minimum Credit Requirements for additional guidance.

9.04 Analysis of Credit Report (9/14/15)

Credit history within the past 12 months is a strong factor in the underwriting decision. Borrowers should exhibit no late payments, judgments, or new collections within the past 12 months. Late payments within 13-24 months will be evaluated on a case-by-case basis.

9.05 Minimum Credit Requirements (10/15/15)

Loans receiving an Approve/Eligible or Accept/Eligible recommendation through DU®/DO® or LP® do not require a minimum number of trade-lines as long as at least one borrower has a credit score.

For loans receiving a Refer with Caution, a borrower's credit report should reflect a minimum of (3) 12-month qualified trade-lines for each borrower.

The definition of a Qualified Trade-Line is a trade-line reflected on the credit report that has a last active date within the last 24 months, and reflects a minimum of 12 months of on-time payments.

- Deferred student loans or student loans that do not appear to have had sufficient payments made will not be considered a qualified trade-line.
- Authorized User and Co-signed accounts will not be considered a qualified trade-line unless the borrowers can provide cancelled checks to verify they have been making the payment for at least 12 months.

Thin credit files can be supplemented with alternative credit references which reflect 12 consecutive on-time payments, such as, but not limited to verification of rent, utilities, cell phone or auto insurance, etc. See Non-Traditional Credit for additional guidance.

When compensating factors exist such as, but not limited to: larger down payment from the borrower's own verified funds, a long history of older established accounts, reserves, etc., may be used to offset the lack of required qualified trade-lines and/or alternative credit references.

Alternative sources of credit may not be used to offset existing derogatory credit on the credit report.

9.06 Collections and Charge-Offs (9/14/15)

Borrowers are not required to payoff outstanding collections and charge-offs, regardless of the amount, unless otherwise stated in the Total Scorecard findings report.

If the loan requires a manual underwrite, all documentation and payoff requirements stated in the HUD Handbook 4000.01 Section II.A.5.a apply.

9.07 Judgments and Tax Liens (9/14/15)

Outstanding balances must be paid-in-full prior to closing. Provide a recorded satisfaction.

Judgments of a non-borrowing spouse must be resolved or paid in full.

9.08 Foreclosure and Bankruptcy (10/20/17)

The following waiting periods and re-establishment of credit apply:

- Chapter 7 and Chapter 13: The discharge date must be at least two years from the date of the case number assignment.
- Foreclosure and Short Sales: The Sheriff's sale date must be at least three years from the date of the case number assignment.

If the loan requires a manual underwrite, requirements stated in the HUD Handbook 4000.01 Section II.A.5.a apply.

A strong and satisfactory 12 month credit history since the derogatory issue is required.

9.09 Inquiries (9/14/15)

An explanation and/or documentation will be required for all recent credit inquiries made within the last 90 days of the credit report date.

9.10 30-Day Charge Accounts (9/14/15)

Document that the borrower has sufficient funds to cover the unpaid balance of all 30 day charge accounts.

9.11 Undisclosed Debt (9/14/15)

Document any discrepancies between the credit report and information disclosed in the application or elsewhere. All debts must be documented and the payments will be included in the debt-to-income ratios.

9.12 Disputed Accounts (9/14/15)

Disputed derogatory accounts with a cumulative balance of $1,000 or more must be downgraded to a Refer and manually underwritten.

Exclusions from the cumulative balance include:

- disputed medical accounts,
- disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use provided the borrower provides a copy of the police report or other satisfactory documentation that supports the status of the account.
- disputed derogatory accounts of a non-borrowing spouse

If the loan requires a manual underwrite, requirements stated in the HUD Handbook 4000.01 Section II.A.5.a apply

9.13 Non-Traditional Credit References (9/14/15)

Alternative credit references are acceptable when sufficient traditional sources are not available. When one or more borrowers are qualified solely on the basis of non-traditional credit:

- A manual underwrite is required by WHEDA.

- Refer to the FHA Product Matrix for LTV/CLTV and cash reserve requirements.
- There must be no late payments on any housing or installment accounts in the last 12 months and no more than two 30-Day late payments on housing or installment accounts in the last 13-24 months.

Required credit reference:

The credit history must include three credit references, including at least one of the following:

- Verification of Rent – verification from someone other than a professional management company must be verified with copies of 12 months cancelled checks or bank statements showing the rental payment being paid each month.
- Telephone service
- Utility payments (gas, electric, water, television service, or internet service)

Examples of other forms of alternative credit references are:

- Insurance premiums paid monthly, not payroll deducted
- Payment to child care providers made to businesses that provide such services
- A documented 12 month savings history evidenced by regular deposits resulting in an increased balance to the account that:
    - were made at least quarterly,
    - were not payroll deducted
    - caused no insufficient funds (NSF) checks

Provide 12 months of consecutive cancelled checks or 12 months of bills marked "paid" to reflect the timeliness of the borrower's payment history.

Bank statements do not by themselves validate payments, but can be used to validate information reported by other sources. Withdrawals and debits on the borrower's bank statements can provide a secondary confirmation of payment obligations.

Vague statements such as "current," "satisfactory," or "pays as agreed" are not acceptable by themselves.

There must be no late payments on any housing or installment accounts in the last 12 months and no more than two 30-Day late payments on housing or installment accounts in the last 13-24 months.

Alternative credit references must include all of the following:

- Creditor's name
- Name of person providing the reference
- Date account was opened
- Amount of highest credit
- Current status of the account
- Required payment amount
- Unpaid balance
- Payment history

Borrower with Disabilities

If a borrower with a disability does not have traditional credit, the lender may use documentations provided by a court appointed guardian or by a Social Security Administration representative payee provided that this party:

- Manages the borrower's financial transactions, and
- Maintains financial records on the borrower's behalf, and
- Use credit accounts held jointly in the name of the borrower to pay financial obligations with Disabilities

Guardians will be required to document evidence of court approval to enter into a mortgage contract on behalf of the borrower

The borrower or their legal guardian must complete Home Buyer Education

10.0 Debt Analysis

The debt-to-income ratio impacts the borrower's ability to repay the mortgage loan. Generally, the lower the borrower's total debt-to-income (DTI) ratio, the lower the risk. As the ratio increases, so does the level of risk.

10.01 Ratios (9/14/15)

Refer to the FHA Product Matrix for maximum total debt-to-income ratio limits

10.02 Housing Payment (9/23/15)

The monthly housing expense is the sum of the following:

- Principal and interest (P&I)
- Real estate taxes
- Hazard insurance, flood and mortgage insurance premium, as applicable,
- Condominium Association dues
- Special Assessments
- WHEDA Easy Close DPA

10.03 Revolving Accounts (9/14/15)

Use greater of $10 or 5% of the balance if no payment amount is listed on the credit report.

Monthly payments on revolving or open-ended accounts, regardless of the balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less.

10.04 Installment Debt (9/14/15)

Include all installment debt with a remaining term of 10 months or more.

Installment 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 percent of the Borrower's gross monthly income.

Principal reductions of installment debt to reduce the remaining term to less than 10 payments is not allowed.

10.05 Lease Payments (9/14/15)

Lease payments must always be included as a debt when determining total debt-to-income ratios.

10.06 Authorized User Accounts (9/14/15)

The debt must be included in the debt ratio unless documentation is provided showing a satisfactory 12 month payment history has been made by the primary account holder.

If the borrower is an authorized user of a trade-line that belongs to a non-applicant spouse the lender must include the monthly payment when calculating the borrower's total debt ratio.

10.07 Non-Applicant Spouse Debt (9/14/15)

All open and active accounts must be included in the total debt ratio.

Judgments of a non-borrowing spouse must be paid in full.

10.08 Alimony and Child Support (9/14/15)

Include all child support obligations with a remaining term of 10 months or more.

10.09 Court-Ordered Assignment of Debt (9/14/15)

When a borrower has outstanding debt reflected on the credit report that was assigned to another party by a court order such as a divorce decree or marital settlement agreement, and the credit does not release the borrower from liability, the borrower has a contingent liability.

The contingent liability does not need to be included as part of the borrower's monthly debt obligation.

10.10 Student Loans (6/24/21)

Student loans must be included in the Borrower's liabilities regardless of the payment type or status of payments.

Regardless of payment status, the lender is required to use:

- The payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero, or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the credit report is zero.

10.11 Business Debt (9/14/15)

When a borrower is self-employed obtain 12 months of cancelled checks to verify the obligation was paid with company funds. If delinquencies have occurred in the past 12 months, include the debt as part of the borrower's individual obligations.

10.12 Co-Signed Debt (9/14/15)

A borrower's co-signed obligation is not considered debt if the borrower can provide copies of cancelled checks for the most recent 12 months verifying the account was paid as agreed by the primary debtor.

11.00 Property Eligibility

This Section provides Lenders guidance on the property eligibility requirements and purchase price/loan limits for the program.

The subject property must meet HUD minimum property standards and Appraisal requirements as stated in the HUD handbook 4000.01 Section II.A.3 & Section II.B.

11.01 Location (9/14/15)

The property must be located in Wisconsin and should be located within a 50 mile radius of the borrower's place of employment.

11.02 Eligible Property Types (9/14/15)

- Existing single family dwelling
- 2-unit which is at least 5 years old (Landlord Counseling is required.)
- HRAP Approved Condominiums

11.03 Ineligible Property Types (9/14/15)

- DELRAP Approved Condominiums
- 3 – 4 unit properties
- New Construction or Major Rehabilitation
- Commercially used properties
- Time share units
- Earth homes
- Dome homes
- Geothermal homes
- Single- and Double-wide manufactured homes

11.04 Property Flipping (9/14/15)

If the property has been owned for less than 90 days by the seller, the loan is not eligible for financing unless it is considered an acceptable exception listed in HUD Handbook 4000.01 Section II.A.1.b.

All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction. Borrower must complete FHA Identity of Interest (Form 36).

11.05 Property Use (9/14/15)

No more than 25% of the property can be used for trade or business purposes. The property cannot be subdivided, farmed, or used commercially.

11.06 Condominiums (02/03/20)

Lenders are allowed to submit loans with a property type of condominiums to WHEDA under the follow review processes:

- HRAP Approved Condominiums
- Single Unit Approval

Lender is required to have the Condominium Association complete the FHA Condominium Questionnaire HUD 9991based on the appropriate review process.

HRAP approved projects:

Lenders must follow the requirements in HUD Handbook 4000.1, Section II.A.8.p.ii, Requirements for Units in Approved Condominium Projects.

Single Unit Approval Process:

Lenders must follow the requirements in HUD Handbook 4000.1, Section II.A.8.p.iii, Single-Unit Approval.

11.07 Offer to Purchase (9/14/15)

Provide a copy of the complete and fully executed contract and all addendums, counters, amendments, notices including the following:

- Amendatory Clause
- Real Estate Certification
- FHA as the type of financing
- Disclosure of any subordinate financing
- Affidavit of Identity of Interest(Form 36)

Loan Limits/Purchase Price Limits

The lender must review the accepted Offer-to-Purchase to determine if the purchase price is less than or equal to the maximum purchase price allowed based on the determined household size and county the property is located in. Refer to the FHA Loan Limits for additional guidance.

Personal Property

Only the acquisition of real property and fixtures (carpeting, built-in appliances, window coverings, etc.) can be financed.

Real Estate Condition Report

Address any concerns noted on the report.

Sales Concessions

The value of excessive sales concessions must be deducted from the purchase price when calculating the LTV and CLTV for underwriting and eligibility requirements.

Joint Party Agreements

Roads, wells and septic systems that are not publicly governed and maintained must have a recorded maintenance agreement, meet community standards and provide adequate service to the property. If

shared facilities are used, the owners of the subject property must have the right to access those facilities on an on-going basis through a legally binding agreement for access and maintenance.

Obtain a copy of the recorded joint party agreement if the property shares a driveway, well, septic system, or wall with an adjoining property. The agreement must address the shared maintenance and must "run with the land."

Code Requirements

The property must meet state and local code compliance requirements. If code violations are noted, they must be corrected prior to closing. Minor issues may be escrowed with the lender to ensure correction after closing.

Lead Based Paint

Any indications of lead based paint noted on addendums or in the appraisal must be abated by a licensed lead abatement contractor.

11.08 Appraisal Report (4/08/19)

The property review must be conducted by an FHA Approved Appraiser and be obtained in compliance with the Appraiser Independence Requirements (AIR), and comply with all Uniform Appraisal dataset standards.

The appraisal report must be an interior and exterior review and include the following:

- Based on the "as is" value of the property
- Appraiser must confirm they were provided with a complete copy of the Offer to Purchase and verify Interested Party Contributions (IPCs), Down Payment Assistance and gifts in the Contract section of the appraisal report, if applicable.

The following exhibits must accompany the appraisal:

- Exterior building sketch with dimensions
- Street map that shows the location of the property and comparable properties
- Clear photographs showing the front, back, and street scene of the subject property and the front of each comparable
- Interior photographs of the kitchen, all bathrooms, main living area, physical deterioration, and recent updates

Appraisal Forms

- Uniform Residential Appraisal Report (1004)
- Small Residential Income Property Appraisal Report (1025)
- HUD Form 216 (2-unit property)
- Market Conditions Addendum to the Appraisal Report (1004MC)
- Appraisal Update and/or Completion Report (1004C)

Good to Know

The FHA Case Number must be reflected on all pages of the Appraisal Report.

Declining Market Appraisal Requirements

- Include a minimum of 2 active listing or pending sales in the appraisal
- Include at least 2 comparable sales that closed within 90 days prior to the effective date of the appraisal; otherwise a detailed explanation is required as to why the sales could not be provided
- Ensure active listing and pending sales are market tested and have reasonable market exposure to avoid the use of over-priced properties as comparable sales. Reasonable market exposure is reflected by typical marketing times for the neighborhood
- Adjust active listings to reflect list-to-sale-price ratios for the market
- Adjust pending sales to reflect the contract purchase price whenever possible, or adjust pending sales to reflect list-to-sale-price ratios
- Include the original list price, revised list prices, and total days on the market

HUD-REO Properties

If the buyer of a HUD REO property is financing the purchase with an FHA loan, the lender must use the HUD appraisal as long as it is still valid. The validity period from the date of inspection is 120 days.

Condition of Property

The property must meet HUD Minimum Property Standards. Remedy any repairs noted on the Appraisal, Property Inspection, or Real Estate Condition Report that impact the safety, soundness or structural integrity of the property.

Document the satisfactory completion of repairs as follows:

- Completion Report or Compliance Inspection Report, and
- Paid receipts and Lien Waivers

Lenders may establish an escrow for repairs that cannot be completed prior to closing, provided the housing is still habitable and safe for occupancy at the time of closing.

Acreage/Land Value

The value of the home should be 60% of the total appraised value.

11.09 Well and Septic Systems (4/08/19)

The lender is responsible for obtaining a well and septic inspection. Any issues noted on the inspection must be remedied prior to closing.

The well and septic systems must meet HUD minimum property standards and Appraisal requirements as stated in the HUD handbook 4000.01 Section II.A.3 & Section II.B.

Lenders may establish an escrow for well and septic systems that cannot be completed prior to closing, provided the housing is still habitable and safe for occupancy at the time of closing.

11.10 Reconsideration of Value ROC (8/29/2024)

This procedure includes the steps and requirements for lenders or borrowers to appeal an appraisal when it is believed that the value is unsupported, unacceptable appraisal practices or reflect prohibited discriminatory practices. Refer to HUD guide 4000.1 Property Acceptability Criteria – Standard (II.B.4.a.ii)

- Lender must disclose to the borrower the ROV process at time of application and again when the appraisal report is provided to the borrower.
- For Appraisals ordered by WHEDA in our Broker channel, a fully completed Appraisal Appeal Form should be uploaded into WHEDA Connect. The form should provide:
    - identification and description of unsupported, inaccurate or deficient areas in the appraisal.

    - Provide additional information about the valuation.
    - Provide up to 3 additional comparable (with a max of 5).
- For loans submitting in our MiniCorr or Correspondent channel, Lender to provide all supporting documentation related to the ROV request with the loan submission to WHEDA.
- Lender must ensure ROV policies and procedures align with Appraisal Independence Requirements (AIR).