

# Manual Underwriting Matrix

FHA Parameters for Manual Underwrites

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As of 6/27/17

|                         |                  | No Compensating Factors | One Compensating Factor    | Two Compensating Factors   | No Other Debt  |   |
|-------------------------|------------------|-------------------------|----------------------------|--|--|---|
| Purchase                | Minimum FICO 580 | Maximum LTV / CLTV      | 96.50%                     | 96.50%   | 96.50%   | 96.50%  |
|                         |                  | Max Qualifying Ratios   | 31 / 43                    | 37 / 47  | 40 / 50  | 40 / 40   |
|                         |                  | Rent Checks Required    | underwriters discretion    | underwriters discretion  | underwriters discretion  | underwriters discretion   |
|                         |                  | Mortgage/Rent Lates*    | 0x30-12 mos<br>2x30-24 mos | 0x30-12 mos<br>2x30-24 mos   | 0x30-12 mos<br>2x30-24 mos   | 0x30-12 mos<br>2x30-24 mos  |
|                         |                  | Seller Concession       | 6%                         | 6%   | 6%   | 6%  |
|                         |                  | Bankruptcy              | 2 yrs                      | 2 yrs  | 2 yrs  | 2 yrs   |
|                         |                  | Foreclosure             | 3 yrs                      | 3 yrs  | 3 yrs  | 3 yrs   |
|                         |                  | Compensating Factors    | none required              | Acceptable compensating factors are limited to <b>one</b> following:<br><ul style="list-style-type: none"> <li>• Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units).</li> <li>• New total monthly mortgage payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less, and there is a documented twelve month housing payment history with no more than one 30 day late payment.</li> </ul>              | Acceptable compensating factors are limited to <b>two</b> following:<br><ul style="list-style-type: none"> <li>• Residual income</li> <li>• Verified and documented significant additional income that is not considered effective income</li> </ul> | Borrower has established credit lines in his/her own name open for at least six months but carries no discretionary debt (i.e., monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for at least the previous six months). |
| Rate and Term Refinance | Minimum FICO 580 | Maximum LTV / CLTV      | 97.75%                     | 97.75%   | 97.75%   | 97.75%  |
|                         |                  | Max Qualifying Ratios   | 31 / 43                    | 37 / 47  | 40 / 50  | 40 / 40   |
|                         |                  | Seasoning               | 6 months                   | 6 months   | 6 months   | 6 months  |
|                         |                  | Mortgage/Rent Lates*    | 0x30-12 mos<br>2x30-24 mos | 0x30-12 mos<br>2x30-24 mos   | 0x30-12 mos<br>2x30-24 mos   | 0x30-12 mos<br>2x30-24 mos  |
|                         |                  | Bankruptcy              | 2 yrs                      | 2 yrs  | 2 yrs  | 2 Yrs   |
|                         |                  | Foreclosure or 120+     | 3 yrs                      | 3 Yrs  | 3 Yrs  | 3 Yrs   |
|                         |                  | Compensating Factors    | none required              | Acceptable compensating factors are limited to <b>one</b> following:<br><ul style="list-style-type: none"> <li>• Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units).</li> <li>• New total monthly mortgage payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less, and there is a documented twelve month housing payment history with no more than one 30 day late payment.</li> </ul>              | Acceptable compensating factors are limited to <b>two</b> following:<br><ul style="list-style-type: none"> <li>• Residual income</li> <li>• Verified and documented significant additional income that is not considered effective income</li> </ul> | Borrower has established credit lines in his/her own name open for at least six months but carries no discretionary debt (i.e., monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for at least the previous six months). |
| Cash Out Refinance      | Minimum FICO 580 | Maximum LTV / CLTV      | 85.00%                     | 85.00%   | 85.00%   | 85.00%  |
|                         |                  | Max Qualifying Ratios   | 31 / 43                    | 37 / 47  | 40 / 50  | 40 / 40   |
|                         |                  | Seasoning               | 12 months                  | 12 months  | 12 months  | 12 months   |
|                         |                  | Mortgage Lates          | none last 12 mos           | none last 12 mos   | none last 12 mos   | none last 12 mos  |
|                         |                  | Bankruptcy              | 2 yrs                      | 2 yrs  | 2 yrs  | 2 yrs   |
|                         |                  | Foreclosure or 120+     | 3 yrs                      | 3 yrs  | 3 yrs  | 3 yrs   |
|                         |                  | Compensating Factors    | none required              | Acceptable compensating factors are limited to <b>one</b> following:<br><ul style="list-style-type: none"> <li>• Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units).</li> <li>• New total monthly mortgage payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less. All payments on the mortgage being refinanced must have been made within the month due for the previous twelve months.</li> </ul> | Acceptable compensating factors are limited to <b>two</b> following:<br><ul style="list-style-type: none"> <li>• Residual income</li> <li>• Verified and documented significant additional income that is not considered effective income</li> </ul> | Borrower has established credit lines in his/her own name open for at least six months but carries no discretionary debt (i.e., monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for at least the previous six months). |

For additional information:  
[fha.gov](http://fha.gov) or [hud.gov](http://hud.gov)

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As of 6/27/17

**Documenting Acceptable Compensating Factors**

**Verified and Documented Cash Reserves**

Verified and documented cash reserves may be cited as a compensating factor subject to the following requirements.

- reserves are equal to or exceed three total monthly mortgage payments (one and two units); or
- reserves are equal or exceed six total monthly mortgage payments (three and four units).

Funds and/or "assets" that are not to be considered as cash reserves include

- gifts;
- borrowed funds; and
- cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the loan transaction.

The mortgagee may use a portion of a borrower's retirement account (IRA, Thrift Savings Plan, 401k, and Keogh accounts) to calculate cash reserves, subject to the following conditions:

- to account for withdrawal penalties and taxes, only 60% of the vested amount of the account, less any outstanding loans, may be used. The mortgagee must document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals under conditions other than in connection with the borrower's employment termination, retirement, or death.
- if withdrawals can be made only in connection with the borrower's employment termination, retirement, or death, the retirement account may not be used to calculate the borrower's cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves.

**Minimal Increase in Housing Payment**

A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

- the new total monthly mortgage payment does not exceed the current total monthly housing payment by more than \$100 or 5%, whichever is less; and
- there is a documented twelve month housing payment history with no more than one 30 day late payment. In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months.
- If the borrower has no current housing payment mortgagees may not cite this compensating factor.

The current total monthly housing payment refers to the borrower's current total mortgage payment or current total monthly rent obligation.

**No Discretionary Debt**

No discretionary debt may be cited as a compensating factor subject to the following requirements:

- the borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the borrower's name open for at least six months; and
- the borrower can document that these accounts have been paid off in full monthly for at least the past six months).

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the borrower's name but for which he or she is an authorized user do not qualify under this criterion.

**Significant Additional Income Not Reflected in Effective Income**

Additional income from bonuses, overtime, part-time or seasonal employment that is not reflected in effective income can be cited as a compensating factor subject to the following requirements:

- the mortgagee must verify and document that the borrower has received this income for at least one year, and it will likely continue; and
- the income, if it were included in gross effective income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion.

This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

**Residual Income**

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table Of Residual Incomes By Region found in VA Pamphlet 26-7 and in accordance with FHA Handbook 4000.1

\* This also includes installment loans.

Revolving debt: Underwriter may approve with no major derogatory credit on revolving accounts in the previous 12 months.

Major derogatory on revolving accounts is any payment more than 90 days after due date, or 3 or more payments more than 60 days after due date.

For additional information:  
[fha.gov](http://fha.gov) or [hud.gov](http://hud.gov)

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