

Section 2.22 – The FHA 203(b) Loan Program

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Overview

Product Summary

General Information

This product description describes SunTrust's Federal Housing Administration (FHA) mortgage programs for Section 203(b), basic 1-4 family, and 234 Condominiums. The FHA 203(b) and 234(c) mortgages are insured by the Department of Housing and Urban Development (HUD). Guidance not addressed in this product description will follow HUD Handbook 4000.1 and any other applicable Mortgagee Letters (ML) or Handbooks not superseded by the new handbook. Correspondent lenders with Direct Endorsement (D.E.) underwriting authority should direct questions for scenarios, guidelines or other requirements to 1.800.CALLFHA. Questions regarding SunTrust credit overlays may be directed to the SunTrust Product Support Team at 800.382.2111.

Correspondent Lenders with DE (Direct Endorsement) Authority

- Correspondent lenders with full FHA Direct Endorsement Authority and FHA Direct Endorsement underwriters on staff may sell FHA loans to SunTrust, underwritten and closed in full compliance with FHA regulations. SunTrust is not responsible for training correspondent lenders or providing HUD handbooks or Mortgagee letters.
- Correspondent lenders are responsible for remitting the up-front MIP and for obtaining the MIC on each loan. Additionally, the correspondent lender is responsible for reviewing the MIC for accuracy. **SunTrust will enforce repurchase of FHA loans that do not have MIC.**
- SunTrust will verify through FHA Connection that the FHA loan has been submitted to HUD for MIC prior to purchase.
 - If FHA Connection reflects a receipt, SunTrust will purchase the loan.
 - If FHA Connection reflects a Notice of Return (NOR), SunTrust will not purchase the loan until the loan has been insured by HUD.

Note: SunTrust may require evidence of the FHA Mortgage Insurance Certificate (MIC) prior to funding when government loans are received for purchase by SunTrust and/or has been pended at SunTrust, and it has been over 30 days from the date of closing.

- SunTrust will not purchase FHA Test Cases or loans considered "Test Cases," when the lender is not yet approved for Direct Endorsement (D.E.), and is submitting cases to the HUD Homeownership Center (HOC) for issuance of a Firm Commitment.

Reference: See the [Compliance Overview](#) section for additional compliance guidelines for FHA loans.

Related Bulletins

General

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- [2018](#)
- [2017](#)
- [2016](#)

Ability-to-Repay Requirements

Ability-to-Repay Requirements

Reference: See [Section 1.05: Underwriting](#) to view the Ability-to-Repay requirements.

Loan Terms

Loan Term

Product Feature	Loan Terms
<ul style="list-style-type: none"> • Conforming Purchase • Conforming Rate/Term Refinance • Conforming Cash-Out Refinance • Conforming Simple Refinance 	<ul style="list-style-type: none"> • Fixed Rate <p><u>Note: SunTrust does not offer the 1, 3, 5, 7, and 10-year ARM programs.</u></p>
<ul style="list-style-type: none"> • Jumbo Purchase • Jumbo Rate/Term Refinance • Jumbo Cash-out Refinance • Jumbo Simple Refinance 	<ul style="list-style-type: none"> • Fixed Rate • Annual amortization terms 20 to 30 years <p><u>Note: SunTrust does not offer the 1, 3, 5, 7, and 10-year ARM programs.</u></p>
<ul style="list-style-type: none"> • Conforming and Jumbo Streamline Refinance <p>Note: Investment properties and secondary residences are only eligible for streamline refinancing into a fixed rate mortgage.</p>	<ul style="list-style-type: none"> • The maximum loan term is the lesser of 30 years, or • Remaining unexpired term plus 12 years. <p>Note: Above amortization requirements apply.</p>

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Loan Terms, Continued

SunTrust Jumbo Maximum Loan Amount

SunTrust Jumbo Loan Amounts

The SunTrust FHA Jumbo Loan Program code (**F30JFX**) must be used when the **base** loan amount meets or exceeds the loan amounts in the table below.

If you have a:	SunTrust Jumbo Program Code begins at:
1 Unit Property	<u>\$453,101</u>
2 Unit Property	<u>\$580,151</u>
3 Unit Property	<u>\$701,251</u>
4 Unit Property	<u>\$871,451</u>

Maximum Loan-to-Value (LTV)/Total Loan-to-Value (TLTV)

The maximum Total Loan-to-Value (TLTV) (also referred to as “combined” loan-to-value (CLTV) including the UFMIP, is 105% for SunTrust, including streamline refinances, unless HUD is more restrictive.

Note: All other LTV/TLTV guidelines published by HUD apply.

Maximum Number of Financed Properties and Borrower Exposure

- FHA loan programs are limited to four (4) financed properties.
- The number of financed properties is COMBINED for all borrowers on the loan to determine the total number of financed properties; regardless of whether or not the borrowers are married. (This would include non-occupant co-borrowers, such as mother or father with occupant daughter/son). It is not acceptable to calculate the total number of financed properties by each individual borrower.
- The following property types are **excluded** in the maximum number of financed properties:
 - Commercial real estate,
 - Franchises,
 - Multi-family properties (i.e., greater than 4 units),
 - Joint or total ownership of a property held in the name of a corporation or S-corporation, even if the borrower is the owner of the corporation and the financing is in the name of the corporation or S-corporation,
 - Vacant (residential) lots,
 - Timeshares,
 - Ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25% and the financing is in the name of the LLC or partnership, and
 - Manufactured home on a leasehold estate not titled as real property (chattel lien on the home).

Eligible Transactions

ARM Alternative

- The ARM Alternative is a lender-funded buydown, not an Adjustable Rate Mortgage (ARM).
- The feature is called the ARM Alternative because it is an “alternative” for borrowers who like the low initial interest rate of an ARM but want the interest rate protection of a fixed rate mortgage.
- The ARM Alternative is a lender-funded buydown where the cost of the buydown is built into the pricing and therefore no buydown funds are required at closing.

Reference: See [Section 2.02: The ARM Alternative](#) product description in the *Correspondent Seller Guide* for additional information.

Energy Efficient Mortgage (EEM)

Only Correspondent lenders that have a Direct Endorsement underwriter on staff may underwrite and submit for purchase loan transactions involving the Energy Efficient Mortgage (EEM) loan program to SunTrust. Property repairs and energy upgrades must be complete for SunTrust to purchase the loan.

203(b) with Repair Escrow

Property repairs must be complete for SunTrust to purchase the loan.

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Eligible Transactions, Continued

Ease-In Payment Reduction Feature

Introduction

- The “Ease-In” is a payment reduction feature where the seller / builder contributes interest up to the first six (6) months allowing the borrower to “ease-in” into a new home and to “ease-in” to the monthly payments.
- The maximum interest subsidy may not exceed the six percent (6%) seller contribution.
- The builder or seller may pay the interest portion beginning with the first payment up to the 6th month payment.
- This feature is only available for a fixed rate FHA loan.

Requirements

- This feature is only available for a 30-year fixed rate FHA purchase transaction.
- Borrower must qualify at the Note rate.
- The maximum contribution of 6% of the sales price may be used towards the borrower’s interest, closing costs and/or prepaids.
- Any dollar amount over the 6% seller contribution limit must be subtracted dollar-for-dollar from the sales price.
- Care must be taken to ensure the borrower’s three and one half percent (3.50%) down payment is not reduced as a result of the seller contributions.
- The seller / builder contribution which is disbursed monthly must be a fixed amount (i.e., payments applied to the monthly interest cannot fluctuate from month to month).
- No portion of the funds may be applied to the principal balance.
- It is similar to a buydown and must be in a fixed amount (amount of interest applied to the PITI cannot change from month to month).

Amortization Schedule

An amortization schedule may be obtained on the [SunTrust website](#) or similar loan amortization programs can be used.

The following items are determined by running an amortization schedule:

- *Total Seller Paid Contribution:* the dollar amount of the seller paid interest,
- *Reduced Payment Period:* the number of months during which interest payments are made, a minimum of one (1) month and no more than six (6) months, and
- *Interest Payment:* a fixed dollar amount being paid monthly toward borrower interest from the seller / builder contribution.

Interest Payment Reduction Calculation

- An example of a 5-month payment reduction on a loan amount of \$97,000 at 6% interest is shown in the table below.
- The seller’s interest contribution for the payment reduction is a fixed amount that cannot exceed the last month of the subsidy period.
- The maximum monthly interest contribution amount in the example below is \$483.00.

Monthly Payment	Principal	Interest Owed	Total P & I	Seller/Builder Contribution	Borrower Contribution
# 1	\$96.56	\$485.00	\$581.56	\$483.00	\$98.56
# 2	\$97.04	\$484.52	\$581.56	\$483.00	\$98.56
# 3	\$97.53	\$484.03	\$581.56	\$483.00	\$98.56
# 4	\$98.02	\$483.54	\$581.56	\$483.00	\$98.56
# 5	\$98.51	\$483.05	\$581.56	\$483.00	\$98.56

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Eligible Transactions, Continued

Ease-In Payment Reduction Feature, (continued)

DU Direct

Fannie Mae's Desktop Underwriter (DU)
<p>Types, Terms & Property</p> <ul style="list-style-type: none"> Type of Mortgage and Terms of Loan <i>Interest Rate (%)</i> – enter the Note Rate
<p>Details of Transaction</p> <ul style="list-style-type: none"> Line f. Est. closing cost- Add Ease-In amount to closing costs. <i>Line k. Closing Costs Paid By Seller</i> – if an Ease-In Payment Reduction Feature is involved, add the Ease-In feature amount to other seller paid closing costs <p>Other Credits</p> <ul style="list-style-type: none"> Description of Other Credits – enter “Other” Amount – if an Ease-In feature is involved, enter the dollar amount of the Ease-In feature
<p>Additional Data</p> <ul style="list-style-type: none"> <i>Loan Information</i> First Year Buydown Rate – enter the Note Rate

Closing

- The *Seller-Paid Interest Buydown Agreement* ([COR 0322](#)) must be completed by the Loan Closer and signed by the borrower and sellers.
- The Ease-In Contribution must be shown on the Settlement Statement as a seller credit and be labeled “*Seller-Paid Interest Contribution*”, *4 months @ \$483.54*” with \$1934.16 (per example above) under the seller’s column.
- Additional funds paid by the seller over and above the cumulative interest calculation must be shown as a closing cost credit to the borrower on the Settlement Statement.
- HUD does not require or permit the presentation or disclosure of “seller-paid credits” on the Loan Estimate.
- Seller credits must be entered as a “lump sum credit” on the Settlement Statement.

Note: When the seller makes a contribution to more than one expense for the borrower, the seller credits shown on the Settlement Statement MUST reflect the “lump sum payment.”

- The servicing department will disburse the seller-paid interest contribution shown on the Settlement Statement on a monthly basis and bill the borrower for the difference.
- As far as IRS reporting is concerned, servicing will back out the seller-paid interest contribution for year-end reporting purposes on Form 1098.

Temporary Interest Rate Buydowns

- The loan must be a fixed rate mortgage on an owner-occupied principal residence.
- The *FHA/VA Buydown Agreement* must be completed and signed by the borrower. The SunTrust *FHA/VA Buydown Agreement* ([COR 0344](#)) is available for use.

Ineligible Transactions for SunTrust

Ineligible Transactions for SunTrust

Ineligible transactions include, but are not limited to:

- 1, 3, 5, 7 and 10 year ARM program
 - FHA 203(k) transactions
 - Disasters and 203(h) Mortgage Insurance for Disaster Victims
 - FHA Refinance Program for borrowers in negative equity positions (also known as a “Short Refinance”)
 - FHA Section 248 Indian Reservations and other Restricted Lands
 - Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands
 - SunTrust Construction/Permanent financing
 - Transactions where the FHA Back-to-Work Guidelines are utilized
 - Home Equity Conversion Mortgage (HECMs)
 - Any Non-Credit Qualifying streamline refinance of an existing FHA loan serviced by a lender other than SunTrust.
 - Investment Properties (except on ST to ST streamline refinance)
 - Ease-In Payment Feature on Jumbo Loans
-

Refinances

Mortgage Seasoning

- For cash-out and streamline refinances, if the existing lien being paid off is FHA or VA the following GNMA requirements must be met:
 - The borrower made at least six consecutive monthly payments on the loan being refinanced, referred to hereinafter as the Initial Loan, beginning with the payment made on the first payment due date; and
 - The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the Initial Loan.
-

Other Restrictions

SunTrust will not purchase any FHA loan where the tax, hazard, and/or flood insurance escrows are transferred (rolled) from the unpaid principal balance of the FHA loan being paid off, to the new loan, in order to fund the new escrow account.

Secondary Financing

General

Secondary financing subject to negative amortization is not acceptable to SunTrust.

Geographic Restrictions

Introduction

The following table shows applicable geographic restrictions.

State	Restriction
Georgia	<u>Properties containing Georgia Power Company leasehold agreements are not eligible for financing with SunTrust.</u>
Texas	<u>Cash-out refinances not eligible.</u>

Reference: See [Section 1.02: Eligible Mortgage Loan Guidelines](#) in the *Correspondent Seller Guide* for general SunTrust geographic restrictions.

Occupancy/Property Types

Ineligible Occupancy/ Property Types

Ineligible occupancy/property types include (but are not limited to):

- Sinkhole Homes (even if repaired)
 - Manufactured homes
 - Methamphetamine Homes (even if certified habitable)
 - Cooperatives
 - Properties with individual water purification systems required to make the water safe and potable
-

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Occupancy/Property Types, Continued

Condominiums General

- All condominium property types must be approved, underwritten to, and insured under Section 203(b).
- For attached condominium units, the project must appear on HUD's FHA-approved condominium list with a current, unexpired "Approved" status.
- In addition, each individual loan on a unit located within the project requires its own Certification for individual Unit Financing (Loan Level Certification) signed by an authorized representative of the Correspondent Lender.

Ineligible Projects

- All projects deemed ineligible to HUD.
- Manufactured housing projects considered condominiums.

Certification for Individual Unit Financing (Loan Level Certification)

- The following must be placed in the loan file:
 - Completed Certification of Project Compliance Condo/PUD Lender Warranty executed by an authorized representative of the Correspondent Lender.
 - A copy of the Certification for Individual Unit Financing Form, completed by an authorized representative of the Correspondent Lender.
 - Copy of the HUD approval
 - Documentation satisfying any condominium approval conditions (if any) shown on the existing HUD approval
 - Completed condominium questionnaire
 - Evidence of hazard/flood (if applicable)/liability & fidelity bond insurance that meets FHA requirements.

Resale/Deed Restrictions

Direct Endorsement Lenders are required to meet HUD requirements for resale and deed restrictions as outlined in the 4000.1 Handbook, the Condominium Project Approval and Processing Guide, and any applicable CFR regulations.

Leasehold Estates

- All FHA leasehold estate transactions must meet HUD guidelines and be processed through Total Scorecard in Fannie Mae's Desktop Underwriter (DU) or be traditionally underwritten.
 - Leasehold estate transactions are not eligible for processing through Freddie Mac's Loan Prospector (LP).
-

Resale/Deed Restrictions

Reference: See General Section [1.16a: Resale/Deed Restrictions](#) of the *Correspondent Seller Guide* for a complete overview of Resale/Deed Restrictions requirements.

Properties Purchased at Auction

Reference: See [Section 1.25: Properties Purchased at Auction](#) for specific guidelines.

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Occupancy/Property Types, Continued

Properties Recently Listed for Sale

- If a property was listed for sale the following applies:
 - for Rate/Term, Simple or Streamline refinances:
 - the property must be taken off the market on or prior to the application (i.e., 1003) date.
- Note:** If the property is currently listed for sale, documentation must be provided that the listing agreement is terminated (it is NOT okay just to take the “For Sale” sign down)!
- for cash-out refinances:
 - the property must have been taken off the market for at least 60 days prior to loan application
 - when the subject property is the borrower's primary residence, the borrower must confirm in writing their intent to occupy the subject property by signing an occupancy affidavit at closing.
-

Eligible Borrowers

Eligible Borrowers

Eligible borrowers include (but are not limited to):

- U.S. Citizens
 - Permanent Resident Aliens
 - Non-permanent Resident Aliens with valid E, G, H, L, NATO, O, or TN visa
 - Co-borrowers/cosigners
 - HUD Employees
 - First-time homebuyers
 - Military Personnel
 - Living Trusts (primary residence only)
-

Ineligible Borrowers

Ineligible Borrowers include (but are not limited to):

- Non-Permanent Resident Aliens that do not have a valid E, G, H, L, NATO, O, or TN visa;
 - Borrowers with diplomatic immunity;
 - Non-Profit Organizations;
 - Non-Occupant co-borrower(s)/co-signer(s) are not permitted with 203(b) with repair escrow unless it is a parent.
-

Non-Permanent Resident Alien/ Nonimmigrant

- A non-permanent resident alien/nonimmigrant is a non US citizen that is not Permanent Resident Alien (green card)/immigrant.
 - Non-permanent Resident Aliens/Nonimmigrants are eligible with the following Visa classification:
 - E, G, H, L, NATO, O or TN
 - The following must be provided to document eligibility:
 - Valid passport with acceptable Visa Classification
 - Evidence of unexpired Employment Authorization Document
 - Borrowers with Diplomatic Immunity are ineligible.
-

Income

Section 8 Home Ownership Vouchers Housing Voucher payments delivered directly to servicer (not to borrower) require special service handling. Contact Purchase Relations to ensure there are no client service failures.

Liabilities and Qualifying Ratios

Qualifying Ratios

Fannie Mae DU/TOTAL

- Loans receiving AUS approval the following maximum DTI requirements apply:
 - 50% for borrowers with credit scores 640-659
 - 55% for borrowers with credit scores \geq 660
-

Credit Requirements

Minimum Credit Score Requirement for ALL Borrowers

640 minimum credit score for all transactions except:

- No minimum credit score for non-credit qualifying streamline refinances (ST to ST only).
 - 720 minimum credit score for non ST to ST Credit Qualifying Streamline.
 - Borrower(s) with no credit score must meet FHA Non-Traditional Credit Guidelines.
-

Minimum Credit Requirements for Streamline Refinance

- Non-Credit Qualifying Streamline is subject to the following restrictions:
 - SunTrust must be current servicer of record (ST to ST)
 - 0 x 30 12 month mortgage payment history on all mortgages on the subject property reporting since the 1st payment due date of the mortgage that is being refinanced.
 - Credit Qualifying Streamline for an SunTrust serviced loan is subject to the following restrictions:
 - SunTrust must be current servicer of record (ST to ST)
 - 0 x 30 12 month mortgage payment history on all mortgages on the subject property reporting since the 1st payment due date of the mortgage that is being refinanced.
 - Credit Qualifying Streamline for a Non-SunTrust serviced loan is subject to the following restrictions:
 - Minimum 720 score
 - 0 x 30 12 month mortgage payment history on all mortgages on the subject property reporting since the 1st payment due date of the mortgage that is being refinanced.
-

Cash Requirements

Stocks and Bonds

If using funds for closing, proof of liquidation is required.

Validation of Parties to the Mortgage Transaction

General

Transactions that involve parties found on the SunTrust Ineligible List are not eligible for purchase.

See the topic “SunTrust Ineligible List Certification” within [Section 1.19: Fraud Prevention Guidelines](#) of the *Correspondent Seller Guide* for additional information.

Rate, Points & Lock-Ins

CRA Incentive and Verification

Target Area

- Loan eligibility for CRA Incentive is limited to SunTrust Bank’s Community Reinvestment Act (CRA) assessment areas. It is also based on the subject property being located in a low-or-moderate income census tract or the borrower’s income being equal to or lower than SunTrust’s maximum allowable income level for the property county.
- SunTrust’s assessment areas are NOT located in all areas of the state.
- If the subject property is located within a SunTrust targeted state and county, proceed with the steps listed below to determine SunTrust qualifying results of the subject property and/or the borrower’s income.

Step	Action
1	Access the following website: www.suntrustgeocoder.com
2	Enter CORRES for password and click the Login button.
3	Input the property address and annual income and click the Submit button.
4	Print the Geocoding Results and place in loan file.

- The geocoding system must be used to determine the census tract locations of individual subject properties.
 - Your loan must receive a “Qualified” message in order for it to be eligible for the CRA incentive.
 - A listing of maximum income limits is provided as a supplemental tool which may be used to inform users of the varying income limits by county, census tract, and product. [Click here](#) for the listings of eligible states/counties and maximum income limits.
 - If the loan is eligible, complete the CRA Census Tract Verification form ([COR 0560a](#)).
 - Email completed form to SunTrust.Corr.CRA@suntrust.com within 48 hours of locking the loan.
 - Once the information is validated, the appropriate pricing adjustments will be made and the new lock confirmation will be available online.
-

Interest Rate and Discount Points

Rate and price quotes are established by the Marketing Department daily and are communicated on SunTrust’s Rate sheet.

Rate, Points & Lock-Ins, Continued

Lock-ins

It is important that the loan type be communicated when the loan is registered and/or locked-in.

Reference: See [Section 1.03: Loan Registration and Lock-In Procedures](#) of the *Correspondent Seller Guide* for additional information concerning lock-ins.

Application, Disclosures and Consumer Compliance

General

All consumer disclosures or notices required by all federal, state and local laws and regulations must be complied with. This includes, but is not limited to, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Flood Disaster Protection Act, the Truth-in-Lending Act, and the Fair Credit Reporting Act, all as amended and all applicable usury limitations. Further, all consumer disclosures relating to the mortgage loan must have been properly given on a timely basis in compliance with applicable laws, rules and regulations.

FHA Loan Applications

SunTrust will accept photocopies, facsimile or imaged electronic documents to satisfy this requirement.

Closing and Loan Settlement Documentation

General

The following closing guidelines are specific to the end investor. Unless specified below, all closing forms and documentation should follow standard HUD/SunTrust guidelines.

Closing Legal Documents

The following table shows the required legal documents.

Note	The most recent version of the FHA Note for a fixed rate loan.
Deed of Trust	The most recent FHA Security Instrument as applicable to state requirements should be used and the last page of the instrument should indicate that appropriate riders are attached.
Condominium Rider	The FHA Condominium Rider must be used when the subject property is a condominium unit. There are no exceptions.
PUD Rider	The FHA PUD Rider must be used when the subject property is located in a PUD. There are no exceptions.
Non-Owner Occupancy Rider	The FHA Non-Owner Occupancy Rider must be used when the subject property is an investment property or HUD-Approved Secondary Residence.

Closing Documents

- Ease-In Buydown Agreement ([COR 0322](#))
 - FHA/VA Buydown Agreement ([COR 0344](#))
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Document Review Fee

For all loans, there is a document review fee that will be charged and will be deducted from the proceeds at closing. Refer to the *Correspondent Seller Guide*, [Section 1.08: Loan Delivery and Purchase Review](#) for information on the fee charges.

Private Roads

Evidence of recorded road maintenance agreement required when private road is not maintained by a homeowners association.

Property and Flood Insurance

- Evidence of Property insurance, including homeowners/hazard policies, fire policies and flood policies, is required for all loans.
 - The type of insurance required depends on varying factors such as property type, occupancy, the flood zone improvements are located
 - All required insurance must meet the more restrictive of:
 - Product requirements (FHA, GNMA, etc.)
 - Regulatory Requirements (Biggerts-Water, NFIP, etc)
-

Review of Final Loan Approval

- All loans must close at the interest rate, term, loan amount that was approved by TOTAL Mortgage Scorecard and the Underwriter.
 - There is no AUS or FHA tolerance.
-