



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

November 15, 2016

FROM: Office of Native American Programs, Office of Loan Guarantee Program, Section 184 Program, Director *Thomas C. Wright*

TO: All Section 184 Approved Mortgagees, Indian Housing Authorities, Tribally Designated Housing Entities and Tribes

SUBJECT: Update to Section 184 Indian Loan Guarantee Program Processing Guidelines, Notice PIH 2014-22 dated September 16, 2014

PURPOSE: The purpose of this notice is to notify lenders of **changes** to Notice PIH 2014-22 that impact Section 184 loans

EXPLANATION: The table below references the section and page of Notice PIH 2014-22 that is revised or changed.

Policy Section	Policy Change(s)	Page Number
Applicant Prequalification	Validity of Section 184 case numbers	2
Collections	Re-define when collections can be paid	8
Eligible Investment Properties	Delete this section including table	16
Rental Income	Clarification on required documentation	16
Real Estate Loans (Departure Residence)	Revised eligibility when applicant elects not to sell their departure residence	18
Projected Obligations	Revised policy for student loans <i>only</i> . Section 184 will follow FHA guidance for Student loans (FHA Mortgagee Letter 2016-08 effective June 30, 2016	19
Underwriting Multi Unit Properties	Revised requirements regarding the purchase of a multi-unit (1-4) property	20-21
Secondary Financing	Additional language added	26
Future Information	Correct contact name and telephone number	40

IMPLEMENTATION: All changes to the policy guidance are effective for Section 184 case numbers issued on or after **December 1, 2016**.

SPECIFIC CHANGES: The table below includes two columns-- the column on the left shows the current guidance in PIH Notice 2014-22 and the right column is the re-written guidance effective December 1, 2016. The Notice PIH 2014-22 should be updated to include both the table below and FHA Mortgagee Letter 2016-08.

<p align="center">PIH 2014-22 September 14, 2014</p>	<p align="center">Changes to PIH 2014-22 Effective Case Numbers October 1, 2016</p>
<p>Page 2: Application Prequalification A case number is valid for up to <i>180 days</i> from issuance. Unless an extension is requested from the Office of Loan Guarantee, after <i>180 days</i> case numbers will be cancelled by HUD without further notice and a lender must send a new request for a case number</p>	<p>A case number is valid for up to <i>60 days</i> from issuance. After <i>60 days</i> case numbers will be cancelled by HUD without further notice and a lender must send a new request for a case number. The following must accompany the case request form: (a) Tribal enrollment identification card; (b) Executed sales contract for purchase transactions</p>
<p>Page 8: Collections All collections must show evidence of payment in full prior to the date of <i>application</i>. In addition, the applicant must furnish a written letter of explanation and must have otherwise good credit</p>	<p>All collections must show evidence of payment in full prior to the date of <i>closing</i>. In addition, the applicant must furnish a written letter of explanation and must have otherwise good credit</p>
<p>Page 16: Eligible Investment Properties Follow the steps in the table below to calculate an investment property's income or loss if the property to be subject to a mortgage is an eligible investment property. Followed by a TABLE</p>	<p>Entire section, including table removed/eliminated from guidance.</p>
<p>Page 16: Rental Income: Rent received for properties owned by the applicant is acceptable as long as the lender can document the stability of the rental income through a) A current lease; <i>or</i> b) a rental history over the previous 24 months that is free of unexplained gaps greater than 3 months</p>	<p>Rent received for <i>investment</i> properties owned by the applicant is acceptable as long as the lender can document the stability of the rental income through a) A current lease; <i>and</i> b) a rental history over the previous 24 months that is free of unexplained gaps greater than 3 months</p>
<p>Page 18: Real Estate Loans (Departure Residence)</p>	

When an applicant is vacating his or her current principal residence that has a mortgage but he or she will not be selling this residence prior to purchasing a home with Section 184 financing, loan approval is based on establishing evidence that the applicant is relocating with a new employer or being transferred by the current employer to an area beyond a reasonable commuting distance (50 miles or more).

If the applicant meets this standard, then they must also meet the three following requirements:

1. Income and Credit Qualification. Applicant must income and credit qualify based on both full PITIs. HUD will not include rental income from the departure residence in the applicant's debt to income ratio.
2. Value of Departure Residence. The departure residence must evidence a loan to value ratio of 75% or less, as determined by either a current (no more than 180 days old) residential appraisal, or by comparing the unpaid principal balance to the original sale price of the property.
3. Rental lease agreement: the applicant must have a) an executed rental lease with a one-year term that will commence on or before the purchase of the new home (provide copy of the lease, evidence of the security deposit, and/or evidence the first month's rent was paid to the homeowner; and b) the applicant must provide evidence that the home will be sold after closing by providing listing agreement and/or documentation to support pending sale in lieu of renting.

When an applicant is vacating his or her current principal residence that is financed with a mortgage and the home will not be sold prior to purchasing the new home, loan approval is based on:

1. The departure residence is not a 184 loan. Applicants cannot have two active 184 loans.
2. The applicant qualifies with both PITIs. The applicant cannot use "expected or projected" rents as qualifying or compensating income
3. Two-month cash reserves.

Reminder: Owner occupancy is a requirement for a home financed with a 184 loan must be the borrower's primary residence and not a non-owner occupied investment property. The following is suggested documentation the lender should obtain as evidence that the borrower(s) are vacating the departure residence. Documentation can include, but not limited to:

1. Rental lease agreement for the departing residence; evidence of security deposit; first month's paid rent; or
2. Evidence of job relocation 50 miles or greater; or
3. Increase in legal dependents thus the departing property fails to meet family needs; or
4. Evidence departure residence is listed for sale with a real estate company and expects to be sold after closing

<p>Page 19: Projected Obligations Debt payments, such as a student loan, car lease, or balloon payment not scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the creditor as anticipated monthly obligations during the underwriting analysis. Debt payments do not have to be classified as projected obligations if the applicant provides written evidence that the debt will be deferred to a period outside the 12-month timeframe. If a borrower has a loan in forbearance or deferment due to a hardship (not due to being in school), then the projected student loan amount must be included by the creditor as anticipated monthly obligations during the underwriting analysis</p>	<p>See attached FHA Mortgagee Letter ML 2016-08 effective June 30, 2016 for guidance on all Student loans, i.e., existing, deferred, contingent, etc.</p> <p>The projected obligation section on page 19. still applies to all non-student projected obligations</p>
<p>Page 20: Underwriting Multi unit properties (two, three and four unit properties) When evaluating the viability of a multi-unit property the underwriter must evaluate the following factors.</p> <ol style="list-style-type: none"> 1. The rental income from all units must be equal to or greater than the monthly mortgage payment. 2. Applicants must qualify for the mortgage based on income, credit and the necessary cash to close. 3. The applicant(s) must demonstrate their financial ability to pay the full PITI; projected rents cannot be used to offset the monthly mortgage payment. 4. The applicant must have cash reserves of <i>six</i> months or mortgage payments (PITI) after closing 	<p>When evaluating the viability of a multi-unit property the underwriter must evaluate the following factors.</p> <ol style="list-style-type: none"> 1. Applicants must qualify for the mortgage based on income, credit and the necessary cash to close. 2. The applicant(s) must demonstrate their financial ability to pay the full PITI; projected rents from all of the non-owner occupied units cannot be used to offset the monthly mortgage payment. 3. The applicant must have cash reserves of <i>two</i> months or mortgage payments (PITI) after closing 4. The applicant must demonstrate that he/she will occupy one of the units. Section 184 cannot be used to acquire

	non owner occupied investment property
<p>Page 26: Secondary Financing Any financing other than the first mortgage that creates a lien against the subject property is considered secondary financing. Secondary financing can be provided by governmental entities, family members, or even lenders</p>	Any financing other than the first mortgage that creates a lien against the subject property <i>and requires a monthly repayment</i> is considered secondary financing. Secondary financing can be provided by governmental entities, family members, or even lenders
<p>Page 40: For More Information Contact Matthew Douglas at (202) 402-6434.</p>	Contact Director, Office of Loan Guarantee at (202) 402-4978.