

FHA Single Family Housing Policy Handbook 4000.1, Part II — c. Asset Requirements (Manual) (08/19/2024)

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c. Asset Requirements (Manual) (08/19/2024) i. General Asset Requirements (Manual) The Mortgagee may only consider assets derived from acceptable sources in accordance with the requirements outlined below. Closing costs, prepaid items and other fees may not be applied toward the Borrower's MRI. (A) Earnest Money Deposit (Manual) The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining: • a copy of the Borrower's canceled check; • certification from the deposit-holder acknowledging receipt of funds; • a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or • direct verification by a TPV vendor, subject to the following requirements: o the Borrower has authorized the Mortgagee to verify assets; o the date of the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and o the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit. If the source of the earnest money deposit was a Gift, the Mortgagee must verify that the Gift is in compliance with Gifts (Personal and Equity) (Manual). (B) Cash to Close (Manual) The Mortgagee must document all funds that are used for the purpose of qualifying for or closing a Mortgage, including those to satisfy debt or pay costs outside of closing. The Mortgagee must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 334 Last Revised: 11/26/2025 (1) Determining the Amount Needed for Closing For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total cost to acquire the Property and the total mortgage amount. For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total payoff requirements of the Mortgage being refinanced and the total mortgage amount. (2) Mortgagee Responsibility for Estimating Settlement Requirements In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement. (a) Origination Fees and Other Closing Costs The Mortgagee or sponsored TPO may charge a reasonable origination fee. The Mortgagee or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs and

prepaid items necessary to close the Mortgage. Charges may not exceed the actual costs. The Mortgagee must comply with HUD's Qualified Mortgage Rule at 24 CFR § 203.19. (b) Discount Points Discount Points refer to a charge from the Mortgagee for the interest rate chosen. They can be paid by the Borrower and become part of the total cash required to close. (c) Types of Prepaid Items (Including Per Diem Interest) Prepaid items may include flood and hazard insurance premiums, MIP, real estate taxes, and per diem interest. They must comply with the requirements of the CFPB. (d) Non-realty or Personal Property Non-realty or Personal Property items (chattel) that the Borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum Mortgage, are included in the total cash requirements for the Mortgage.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 335 Last Revised: 11/26/2025 (e) Upfront Mortgage Insurance Premium Amounts Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than \$1.00. (f) Real Estate Agent Fees If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements. (g) Repairs and Improvements Repairs and improvements, or any portion paid by the Borrower that cannot be financed into the Mortgage, are part of the Borrower's total cash requirements. (h) Premium Pricing on FHA-Insured Mortgages Premium Pricing refers to the aggregate credits from a Mortgagee or TPO at the interest rate chosen. Premium Pricing may be used to pay a Borrower's actual closing costs and prepaid items. Premium Pricing is not included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder or developer. The funds derived from a premium priced Mortgage:

- must be disclosed in accordance with RESPA;
- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid items; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Mortgage Payments, or Judgments.

(i) Interested Party Contributions on the Closing Disclosure The Mortgagee may apply Interested Party credits toward the Borrower's origination fees, other closing costs including any items POC, prepaid items, and Discount Points. The refund of the Borrower's POCs may be used toward the Borrower's MRI if the Mortgagee documents that the POCs were paid with the Borrower's own funds.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 336 Last Revised: 11/26/2025 The Mortgagee must identify the total Interested Party credits on the front page of the Closing Disclosure or similar legal document or in an addendum. The Mortgagee must identify each item paid by Interested Party Contributions. (j) Real Estate Tax Credits Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI, if the Mortgagee documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs and other prepaid items at the time of underwriting, without consideration of the real estate tax credit. This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI. (C) Reserves (Manual) Reserves refer to the sum of the Borrower's verified and

documented liquid assets minus the total funds the Borrower is required to pay at closing. Reserves do not include: • the amount of cash taken at settlement in cash-out transactions; • incidental cash received at settlement in other loan transactions; • gift funds; • equity in another Property; or • borrowed funds from any source. (1) Required Reserves for One- to Two-Unit Properties The Mortgagee must verify and document Reserves equivalent to one month's PITI after closing for one- to two-unit Properties. (2) Required Reserves for Three- to Four-Unit Properties The Mortgagee must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit Properties. (3) Required Reserves for One-Unit with an Accessory Dwelling Unit Properties If Rental Income is being used to qualify, the Mortgagee must verify and document Reserves equivalent to two months' PITI after closing for one-unit with an ADU Properties.

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ii. Source Requirements for the Borrower's Minimum Required Investment (Manual) (A) Definition Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the Property. (B) Standard The Mortgagee may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from: (1) the seller of the Property; (2) any other person or entity who financially benefits from the transaction (directly or indirectly); or (3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above. While additional funds to close may be provided by one of these sources if permitted under the relevant requirements above, none of the Borrower's MRI may come from these sources. The Mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above. Additionally, in accordance with Prohibited Sources of Minimum Cash Investment Under the National Housing Act - Interpretive Rule, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities, when acting in their governmental capacity, from providing the Borrower's MRI where the Governmental Entity is originating the insured Mortgage through one of its homeownership programs. (C) Required Documentation Where the Borrower's MRI is provided by someone other than the Borrower, the Mortgagee must also obtain documentation to support the permissible nature of the source of those funds. To establish that the Governmental Entity provided the Borrower's MRI in a manner consistent with HUD's Interpretive Rule, the Mortgagee must document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the Borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the Mortgagee for the use of funds legally belonging to the Mortgagee to fund the Borrower's MRI.

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The Mortgagee must obtain: • a canceled check, evidence of wire transfer, or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided toward the Borrower's MRI from the Governmental Entity's account; or • a letter from the Governmental Entity, signed by an authorized official, establishing that

the funds provided toward the Borrower's MRI were funds legally belonging to the Governmental Entity, when acting in their governmental capacity, at or before closing. Where a letter from the Governmental Entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the Borrower's MRI legally belonged to the Governmental Entity at or before closing, by stating, for example: • the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds toward the Borrower's MRI; • the Governmental Entity has, at or before closing, incurred a legally enforceable obligation to provide the funds toward the Borrower's MRI; or • the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds toward the Borrower's MRI. While the Mortgagee is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the Governmental Entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source. iii. Sources of Funds (Manual) The Mortgagee must verify liquid assets for cash to close and Reserves as indicated. (A) Checking and Savings Accounts (Manual) (1) Definition Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits. (2) Standard The Mortgagee must verify and document the existence of and amounts in the Borrower's checking and savings accounts. For individual deposits of more than 50 percent of the total monthly Effective Income, the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that the deposits are commensurate with the II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 339 Last Revised: 11/26/2025 Borrower's income and savings history and no debts were incurred to obtain part, or all, of the MRI. (3) Required Documentation (a) Traditional Documentation The Mortgagee must obtain: • a written VOD and the Borrower's most recent statement for each account; or • direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month activity for a minimum of one month, subject to the following requirements: o the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and o the date of the data contained in the completed verification is current within 30 days of the date of the verification. (b) Alternative Documentation If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the Mortgagee must obtain statement(s) for the most recent two months. (B) Cash on Hand (Manual) (1) Definition Cash on Hand refers to cash held by the Borrower outside of a financial institution. (2) Standard The Mortgagee must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the escrow/title company. (3) Required Documentation The Mortgagee must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds. The Mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's: • income stream; II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 340 Last Revised: 11/26/2025 • spending habits; • documented expenses; and • history of using financial institutions. (C)

Retirement Accounts (Manual) (1) Definition Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement. (2) Standard The Mortgagee may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties. The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves. (3) Required Documentation The Mortgagee must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account. If any portion of the asset is required for funds to close, evidence of liquidation is required. (D) Stocks and Bonds (Manual) (1) Definition Stocks and Bonds are investment assets accumulated by the Borrower. (2) Standard The Mortgagee must determine the value of the stocks and bonds from the most recent monthly or quarterly statement. If the stocks and bonds are not held in a brokerage account, the Mortgagee must determine the current value of the stocks and bonds through TPV. Government- issued savings bonds are valued at the original purchase price, unless the II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 341 Last Revised: 11/26/2025 Mortgagee verifies and documents that the bonds are eligible for redemption when cash to close is calculated. (3) Required Documentation The Mortgagee must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required. For stocks and bonds not held in a brokerage account the Mortgagee must obtain a copy of each stock or bond certificate. (E) Private Savings Clubs (Manual) (1) Definition Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool. (2) Standard The Mortgagee may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds. The Mortgagee must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The Mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed. (3) Required Documentation The Mortgagee must obtain the club's account ledgers and receipts, and a verification from the club treasurer that the club is still active. (F) Gifts (Personal and Equity) (Manual) (1) Definition Gifts refer to the contributions of cash or equity with no expectation of repayment. (2) Standards for Gifts (a) Acceptable Sources of Gifts Funds Gifts may be provided by: • the Borrower's Family Member; • the Borrower's employer or labor union; II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 342 Last Revised: 11/26/2025 • a close friend with a clearly defined and documented interest in the Borrower; • a charitable organization; • a governmental agency or public entity that has a program providing homeownership assistance to: o low- or moderate-income families; or o first-time homebuyers. Any Gift of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual). (b) Reserves Surplus gift funds may not be considered as

cash Reserves. (c) Donor's Source of Funds Cash on Hand is not an acceptable source of donor gift funds. (3) Required Documentation The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following: • the donor's name, address, telephone number; • the donor's relationship to the Borrower; • the dollar amount of the Gift; and • a statement that no repayment is required. Documenting the Transfer of Gifts The Mortgagee must verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below. • For Gifts that will be verified prior to settlement, the Mortgagee must obtain one of the following: o the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account; o a copy of the donor's canceled check and evidence of deposit into the Borrower's account; o a copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account; or o evidence of the electronic transfer of funds from the donor's account to the Borrower's account. • For Gifts that will be verified at settlement, the Mortgagee must obtain one of the following evidencing payment to the settlement agent: o evidence of electronic transfer of funds from the donor's account;

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 343 Last Revised: 11/26/2025 o bank certified check; o cashier's check; or o other official bank check. • For Gifts of land, the Mortgagee must obtain: o proof of ownership by the donor; and o evidence of the transfer of title to the Borrower. Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source. (4) Standards for Gifts of Equity (a) Who May Provide Gifts of Equity Only Family Members may provide equity credit as a Gift on Property being sold to other Family Members. (b) Required Documentation The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following: • the donor's name, address, telephone number; • the donor's relationship to the Borrower; • the dollar amount of the Gift; and • a statement that no repayment is required. (G) Interested Party Contributions (Manual) (1) Definition Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third-Party Originators (TPO), or other parties with an interest in the transaction. Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs including any items POC, prepaid items, and Discount Points. (2) Standard Interested Parties may contribute up to 6 percent of the sales price toward the Borrower's origination fees, other closing costs, prepaid items, and Discount Points. The 6 percent limit also includes: • Interested Party payment for permanent and temporary interest rate buydowns, and other payment supplements; • payments of mortgage interest for fixed rate Mortgages;

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 344 Last Revised: 11/26/2025 • Mortgage Payment protection insurance; and • payment of the UFMIP. Interested Party Contributions that exceed actual origination fees, other closing costs, prepaid items, and Discount Points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent are considered an inducement to purchase. Interested Party Contributions may not be used for the Borrower's MRI. Exceptions Premium Pricing credits from the Mortgagee or TPO are excluded from the 6 percent limit provided the Mortgagee or TPO is not the seller, real estate agent, builder or

developer. Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution. The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution. (3) Required Documentation The Mortgagee must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary, and Closing Disclosure or similar legal document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser. (H) Inducements to Purchase (Manual) Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage. These inducements include, but are not limited to: • contributions exceeding 6 percent of the purchase price; • contributions exceeding the origination fees, other closing costs, prepaid items, and Discount Points; • decorating allowances; • repair allowances; • excess rent credit; • moving costs; • paying off consumer debt; II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 345 Last Revised: 11/26/2025 • Personal Property; • sales commission on the Borrower's present residence; and • below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members. (1) Personal Property (Manual) Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area: • range • refrigerator • dishwasher • washer • dryer • carpeting • window treatment • other items determined appropriate by FHA (2) Sales Commission (Manual) An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence. An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area. (3) Rent Below Fair Market (Manual) A reduced rent is an inducement to purchase when the sales contract includes terms permitting the Borrower to live in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below the Appraiser's estimate of fair market rent. When such an inducement exists, the amount of inducement is the difference between the rent charged and the Appraiser's estimate of fair market rent pro-rated over the period between execution of the sales contract and execution of the Property sale. Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete. (I) Downpayment

Assistance Programs (Manual) FHA does not “approve” downpayment assistance programs administered by charitable organizations, such as nonprofits. FHA also does not allow nonprofit entities to provide Gifts to pay off: • Installment Loans • credit cards • collections • Judgments • liens • similar debts The Mortgagee must ensure that a Gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented. (1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status If a charitable organization makes a Gift that is to be used for all, or part, of a Borrower’s downpayment, and the organization providing the Gift loses or gives up its federal tax-exempt status, FHA will recognize the Gift as an acceptable source of the downpayment provided that: • the Gift is made to the Borrower; • the Gift is properly documented; and • the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization’s tax-exempt status is terminated. (2) Mortgagee Responsibility for Ensuring that Downpayment Assistance Provider is a Charitable Organization The Mortgagee is responsible for ensuring that an entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC. One resource for this information is the IRS Tax Exempt Organization Search, which contains a list of organizations eligible to receive tax-deductible charitable contributions. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 347 Last Revised: 11/26/2025 (J) Secondary Financing (Manual) Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a Gift or a grant even if it does not require regular payments or has other features forgiving the debt. (1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual) (a) Definitions A Governmental Entity refers to any federal, state, or local government agency or instrumentality. To be considered an Instrumentality of Government, the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 entities to be Instrumentalities of Government for the purpose of providing secondary financing. Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program. (b) Standard FHA will insure a first Mortgage on a Property that has a second Mortgage or lien made or held by a Governmental Entity, provided that: • the secondary financing is disclosed at the time of application; • no costs associated with the secondary financing are financed into the FHA-insured first Mortgage; • the insured first Mortgage does not exceed the FHA Nationwide Mortgage Limit for the area in which the Property is located; • the secondary financing payments are included in the total Mortgage Payment; • any secondary financing of the Borrower’s MRI fully complies with the additional requirements set forth in Source Requirements for the Borrower’s Minimum Required Investment (Manual); • the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and • the second lien does not provide for a balloon payment within 10 years from the date of execution. II. ORIGINATION THROUGH POST-

CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 348 Last Revised: 11/26/2025 Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that: • specifies the functions performed are within the Governmental Entity's secondary financing program; and • names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust). Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit. The Mortgagee must enter information on HUD-approved Nonprofits into FHAC, as applicable. Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual). There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees. Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32. (c) Required Documentation The Mortgagee must obtain from the provider of any secondary financing: • documentation showing the amount of funds provided to the Borrower for each transaction; • copies of the Mortgage and Note; and • a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured Mortgage, signed by an authorized official and containing the following information: o the FHA case number for the first Mortgage; o the complete property address; o the name, address and Tax ID for the nonprofit; o the name of the Borrower(s) to whom the nonprofit is providing secondary financing; o the amount and purpose for the secondary financing provided to the Borrower; and o a statement indicating whether the secondary financing: ▪ will close in the name of the Governmental Entity; or ▪ will be closed in the name of the nonprofit and held by the Governmental Entity.

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disclosed at the time of application; • no costs associated with the secondary financing are financed into the FHA-insured first Mortgage; • the secondary financing payments must be included in the total Mortgage Payment; • the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; • the secondary financing may not be used to meet the Borrower's MRI; • there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and • the second lien may not provide for a balloon payment within 10 years from the date of execution.

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Secondary financing provided by Section 115 entities must follow the guidance in Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual). Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32. (c) Required Documentation The Mortgagee must obtain from the provider of any secondary financing: • documentation showing the amount of funds provided to the Borrower for each transaction; and • copies of the Mortgage and Note. The Mortgagee must enter information into FHAC on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits. (3) Family Members (Manual) (a) Standard FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a Family Member, provided that: • the secondary financing is disclosed at the time of application; • no costs associated with the secondary financing are financed into the FHA- insured first Mortgage; • the secondary financing payments must be included in the total Mortgage Payment; • the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; • the secondary financing may be used to meet the Borrower's MRI; • the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value; • the second lien may not provide for a balloon payment within 10 years from the date of execution; • any periodic payments are level and monthly; • there is no prepayment penalty; • if the Family Member providing the secondary financing borrows the funds, the lending source may not be an entity with an Identity of Interest in the sale of the Property, such as the: o seller; o builder; o loan originator; or o real estate agent;

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Note. If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, the Mortgagee must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Mortgagee. (4) Private Individuals and Other Organizations (Manual)

(a) Definition Private Individuals and Other Organizations refer to any individuals or entities providing secondary financing which are not covered elsewhere in this Secondary Financing section. (b) Standard FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;

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- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA LTV limit;
- the Base Loan Amount and secondary financing amount must not exceed the Nationwide Mortgage Limits.
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving the Mortgagee 30 Days advance notice. Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32. (c) Required Documentation The Mortgagee must obtain from the provider of any secondary financing:
- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note. (K) Loans (Manual) A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money. (1) Collateralized Loans (Manual) (a) Definition A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased. (b) Standard Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The Mortgagee must reduce the amount of the corresponding asset by the amount of the collateralized loan. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 353 Last Revised: 11/26/2025 (c) Who May Provide Collateralized Loans Only an independent third party may provide the borrowed funds for collateralized loans. The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:
- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual). (d) Required Documentation The Mortgagee must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note

securing the asset, and the loan proceeds. (2) Retirement Account Loans (Manual) (a) Definition A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets. (b) Standard The Mortgagee must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan. (c) Required Documentation The Mortgagee must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance. (3) Disaster Relief Loans (Manual) (a) Definition Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 354 Last Revised: 11/26/2025 (b) Standard Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA- insured Mortgage, and meet the requirements for Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual). Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual). Any monthly payment arising from this type of loan must be included in the qualifying ratios. (c) Required Documentation The Mortgagee must verify and document the promissory Note. (L) Grants (Manual) (1) Disaster Relief Grants (Manual) (a) Definition Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI. (b) Required Documentation The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use. Any grant of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual). (2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (Manual) (a) Definition The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of downpayment assistance and may be used in conjunction with FHA-insured financing. Secondary financing that creates a lien against the Property is not II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 355 Last Revised: 11/26/2025 considered a Gift or grant even if it does not require regular payments or has other features forgiving the debt. (b) Standard Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual). (c) Required Documentation The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use. The Mortgagee must also verify and document that the Retention Agreement required by the FHLB is recorded against the Property and results in a Deed Restriction, and not a second lien. The Retention Agreement must: • provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower; • include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and • comply with all other FHA regulations. (M) Employer Assistance (Manual) (1) Definition Employer Assistance refers to benefits provided by an employer to

relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, prepaid items, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing. A salary advance cannot be considered as assets to close. (2) Standard (a) Relocation Guaranteed Purchase The Mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close. (b) Employer Assistance Plans The amount received under Employer Assistance Plans may be used as cash to close. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 356 Last Revised: 11/26/2025 (3) Required Documentation (a) Relocation Guaranteed Purchase If the Borrower is being transferred by their company under a guaranteed sales plan, the Mortgagee must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt. The Mortgagee must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale. (b) Employer Assistance Plans The Mortgagee must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Mortgagee must verify and document that the Borrower has sufficient cash for closing. (N) Sale of Personal Property (Manual) (1) Definition Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles. (2) Standard The Mortgagee must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close. (3) Required Documentation Borrowers may sell Personal Property to obtain cash for closing. The Mortgagee must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 357 Last Revised: 11/26/2025 (O) Trade-In of Manufactured Home (Manual) (1) Definition Trade-In of Manufactured Home refers to the Borrower's sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party. (2) Standard The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds. Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party. (3) Required Documentation The Mortgagee must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. The Mortgagee must obtain documentation to support the Trade Equity. (P) Sale of Real Property (Manual) (1) Definition The Sale of Real Property refers to the sale of Property currently owned by the Borrower. (2) Standard Net proceeds from the Sale of Real Property may be used as an acceptable source of funds. (3) Required Documentation The Mortgagee must verify and document the actual sale and the Net Sale Proceeds by obtaining a fully executed Closing Disclosure or similar legal document. The Mortgagee must also verify and document that it is an Arm's Length Transaction, and that the Borrower is entitled to the Net Sale Proceeds. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II

Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 358 Last Revised: 11/26/2025 (Q) Real Estate Commission from Sale of a Subject Property (Manual) (1) Definition Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased. (2) Standard Mortgagees may consider Real Estate Commissions from Sale of Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent. A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements. (3) Required Documentation The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a real estate commission from the sale of the Property being purchased. (R) Sweat Equity (Manual) (1) Definition Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the Property being purchased. (2) Standard The Mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds. Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the Source Requirements for the Borrower's Minimum Required Investment (Manual). The Mortgagee may consider any amount as Sweat Equity that has not already been included in the mortgage amount. The Mortgagee may not consider clean up, debris removal, and other general maintenance, and work to be performed using repair escrow as Sweat Equity. Cash back to the Borrower is not permitted in Sweat Equity transactions. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 359 Last Revised: 11/26/2025 (3) Required Documentation For materials furnished, the Mortgagee must obtain evidence of the source of funds and the Market Value of the materials. For labor, the Mortgagee must verify and document that the work will be completed in a satisfactory manner. The Mortgagee must also obtain evidence of Contributory Value of the labor either through an Appraiser's estimate, or a cost-estimating service. • For labor on Existing Construction, the Mortgagee must also obtain an appraisal indicating the repairs or improvements to be performed. (Any work completed or materials provided before the appraisal are not eligible) • For labor on New Construction, the Mortgagee must also obtain the sales contract indicating the tasks to be performed by the Borrower during construction. (S) Trade Equity (Manual) (1) Definition Trade Equity refers to when a Borrower trades their Real Property to the seller as part of the cash investment. (2) Standard The amount of the Borrower's equity contribution is determined by: • using the lesser of the Property's appraised value or sales price; and • subtracting all liens against the Property being traded, along with any real estate commission. If the Property being traded has an FHA-insured Mortgage, assumption processing requirements and restrictions apply. (3) Required Documentation The Mortgagee must obtain a residential appraisal report complying with FHA appraisal policy to determine the Property's value. The Mortgagee must also obtain the Closing Disclosure or similar legal document to document the sale of the Property. (T) Rent Credits (Manual) (1) Definition Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 5. Manual Underwriting of the Borrower Handbook 4000.1 360 Last Revised: 11/26/2025 (2) Standard The

Mortgagee may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent toward the MRI. (3) Required Documentation The Mortgagee must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

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