

Power Alert: Underwriting Policy Guideline Changes Effective Immediately

I. CONSTRUCTION-TO-PERMANENT FINANCING

II. SPOT CONDOMINIUM APPROVALS

I. CONSTRUCTION-TO-PERMANENT FINANCING

Construction-to-permanent financing consists of a lender replacing an interim construction loan, used in conjunction with constructing the residence, to a long-term mortgage. Usually, construction-to-permanent financing can be closed as one or two closing transactions. With one closing, the lender is responsible for disbursements to the home contractor or builder, and once the home is complete, the loan converts to permanent financing.

With two closings, however, there are two separate loans—the first, which is responsible for the actual construction phase of the home and disbursements to the builder, and the second, which refinances the first lien to permanent financing. **Nationstar Mortgage will only consider construction-to-permanent financing when we are the second lender on two closing construction loans.**

★ Loan Types:

- Purchase Money
- Limited Cash-Out Refinance
- Cash-Out Refinance

When closing as a refinance, the borrower must demonstrate ownership of the lot prior to applying for the construction loan. Additionally, the owner of the lot must be a borrower on that construction loan.

★ LTV Calculations:

LTV calculations mainly focus on how long the borrower has legally held the title to the subject lot, as well as the type of transaction being performed.

★ Purchase Money Transactions:

1. Lot owned > 12 months: Divide the unpaid principal balance of the construction-to-permanent loan by the lesser of:
 - a. The current appraised value of the property (both lot and improvements); or
 - b. The sum of all documented costs of the construction plus the appraised value of the lot.
2. Lot owned < 12 months: Divide the unpaid principal balance of the construction-to-permanent loan by the lesser of:
 - a. The current appraised value of the property (both lot and improvements); or
 - b. The sum of all documented costs of the construction plus the purchase price of the lot, which should be documented by the purchase contract for the lot or a HUD-1.

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If you have questions, contact your Account Executive or visit us online.

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★ **Refinance Transactions:**

1. Lot owned > 12 months: Divide the unpaid principal balance of the construction-to-permanent loan by the current appraised value of both lot and improvements.
2. Lot owned < 12 months: Divide the unpaid principal balance of the construction-to-permanent loan by the lesser of:
 - a. The current appraised value of the property (both lot and improvements); or
 - b. The total acquisition costs, which are the sum of the costs of the improvements plus the sales price of the lot.

★ **Down Payment Requirements:**

Nationstar requires the borrower to apply his or her own funds as cash investment (either 3.5% or 5% depending on the loan program). If the borrower's cash investment is the lot, the borrower must provide a HUD-1 statement showing the purchase of the land, as well as a copy of the warranty deed or release of lien showing no liens presently exist on the lot.

★ **Documentation Requirements:**

Prior to closing, the appraiser must provide a Certificate of Completion including photos of the completed property, and a Certificate of Occupancy (CO) must be obtained from the applicable government authority, usually at the county or local level. The CO should indicate all work is complete, built to code and the property is fit to be occupied.

★ **FHA**

When refinancing a construction loan that is in the borrower's name to permanent financing, the appropriate LTV limits are applied to the lesser of the:

- Appraised value of the proposed home and land, or
- Documented cost of the property

The documented cost of property includes the following:

- The builder's price or sum of all subcontractor bids and materials
- Cost of the land (if the land has been owned more than six months or was received as an acceptable gift, the value of the land may be used instead of its cost), and
- Interest and other costs associated with any construction loan obtained by the borrower to fund construction of the property.

In order to determine if a borrower has made the required 3.5% cash investment, or its equivalent in land equity, the **Build On Own Land Worksheet** must be completed. **The file must contain the following documentation to establish the maximum loan amount and any cash required at closing of the permanent loan:**

- HUD-1 from the purchase of the land (or gift deed)
- Sales contract from builder for the home
- Any additional sales contracts for utility or road improvements not included in the builder's contract
- HUD-1 from the construction close
- Documentation from the construction lender detailing any interest paid-to-date on the construction loan

In addition, the following construction exhibits must be provided prior to final approval if the LTV exceeds 90%:

1. If the appraisal was completed prior to framing of the home:

- **Early start letter from a Direct Endorsement (DE) underwriter is required**
- **Three inspections (foundation, framing and final) completed by an FHA inspector**

2. If the appraisal was performed after the home was 90% or more complete:

- **Building Permit and Certificate of Occupancy or**
- **10-year warranty (Acceptance letter from issuing company required)**

- 3. In all cases where the property was not complete at the time of appraisal a 92051 Final Inspection an FHA fee inspector must complete the form.**
- 4. The following FHA specific documentation is required on ALL properties that are less than one year old:**
 - **92541 Builder’s Certification of Plans and Specs must be dated prior to appraisal**
 - **92544 Builder’s Warranty of Completion**
 - **NPCA 99a and 99b**

II. SPOT CONDOMINIUM APPROVALS

The temporary authority for spot condominium approvals expires with all case number orders February 1, 2010 and after. For case numbers ordered prior to this date, Nationstar Mortgage will continue to process spot approvals for thirty days. All loans with spot approvals must have final approval (cleared to close) no later than February 28, 2010. No exceptions will be granted.

★ Site Condominiums

Single-family detached properties that are classified as a condominium no longer require project approval. The legal description must include the land in order for the property to be considered a site condominium. The appraisal should be completed on Fannie Mae® form 1004 (not the 1004C). Although processed as a Section 203 (b), the ADP code (last three digits of the case number) is 734.

★ Projects With Existing FHA Project Approvals

The initial underwriting submission package must contain a print out from FHA Connection showing that the project is approved. A list of approved projects can be found at:

<http://entp.hud.gov/idapp/protect/condlook.cfm>

You must select from one of the following options:

- **HRAP/DELRAP or**
- **Pre HRAP/DELRAP**

Additionally, the underwriter must sign a certification to be submitted with the insuring package attesting that the project still meets FHA guidelines. This form will be posted on the internal website.

★ Project Approval Processing—FHA now allows two processes for new project approvals:

- HRAP HUD Review and Approval Process
- DELRAP Direct Endorsement Lender Review and Approval Process

Subsequent to the announcement, VA and FNMA issued policies terminating reciprocal approvals for properties in FHA approved condominium projects. Due to general market concerns and lack of further guidance from FHA regarding specific requirements, Nationstar will not currently be participating in the DELRAP Process.

Please submit [**Nationstar’s HOA/Condo Questionnaire**](#) with loan file.

Nationstar mortgage will only allow condominiums that are currently on FHA’s approved list or are approved by FHA through the HRAP process.

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