



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

June 2, 2010

TI-484

MEMORANDUM FOR: ALL TITLE I LENDING INSTITUTIONS
Attention: Installment Loan Department

SUBJECT: Title I Manufactured Home Loan Program
Clarification and Guidance

This Title I Letter (TI-484) provides clarification and/or technical amendment of certain provisions in Title I Letter 481 (TI-481) entitled “Changes to the Title I Manufactured Home Loan Program”, and its appendices, dated April 14, 2009 which implemented the revisions of FHA’s Title I Manufactured Home Loan Program of the Federal Housing Administration (FHA), that were made by the Manufactured Housing Loan Modernization Act of 2008, §§2141-2150 of the Housing and Economic Recovery Act (HERA) of 2008. TI-481 implemented changes made by HERA, but does not constitute the complete governance of the Manufactured Home Program. FHA’s regulations in 24 CFR Part 201, remain applicable, except as they have been changed by TI-481, TI-482, and this Title I letter.

The following clarifications and technical amendments to the Title I Manufactured Home Loan Program are based on FHA’s experience during the one year that has passed since the new changes were put in place by TI-481. The clarifications and technical amendments are as follows:

INCONTESTABILITY OF INSURANCE

TI-481 stated that the HERA amendment eliminated the 2-year incontestability provision found in paragraph 2(g) of the NHA, which provides that any Title I claim payment shall be incontestable after two years from the date the claim was certified for payment by the Secretary. That statement in TI-481 was partially incorrect. The HERA amendment provides that insurance coverage shall be incontestable from endorsement for insurance except for fraud or misrepresentation on the part of the claimant in the origination of the loan The 2 year time period to recover claim payments based upon violations of the claim submission requirements is retained. This correction is reflected in the changes to Appendix 9 provided below.

Section 9-9A of Appendix 9, Denial of Insurance Claim - Policy, is revised in its entirety by this Title I letter as follows to clarify the applicability of the incontestability of insurance clause:

A. Policy

1. Incontestability

Effective for loan applications dated on or after June 1, 2009, when FHA endorses a loan for insurance, the loan is covered under the lender's contract of insurance. The insurance coverage for the loan is incontestable from the date of issuance of the certificate of insurance except for fraud or misrepresentation on the part of the claimant in the origination.

2. Compliance with Claim Requirements

FHA may deny a claim, or within two years after paying a claim, recover the claim payment based upon a violation of FHA's requirements for claim submission unless a waiver is granted. For example, if the note representing the borrower's obligation that is assigned to FHA is invalid or unenforceable, or if the lender making the claim does not follow the FHA claim requirements under the insurance contract, FHA may deny payment of the claim. See Section 9-12 of Appendix 9.

Note: The June 1, 2009 date provided above was selected by FHA because it reflects the date on which FHA systems necessary for the implementation of these changes were in place.

Section 9-12 of Appendix 9, Demand for Repurchase of a Claim, is revised in its entirety by this Title I letter to read as follows to clarify when demand for repurchase of a claim may be made by FHA.

Although the contract of insurance is incontestable (absent fraud or misrepresentation) as explained in section 9-9, FHA may nevertheless demand that the lender repurchase a loan when the note on the loan for which the claim is made is invalid or unenforceable. The lender is required to assign to FHA a valid and enforceable note. Usually FHA does not discover that a note is not valid or enforceable until the borrower raises defenses or issues when FHA attempts to collect the unpaid balance of the loan from the borrower. Pursuant to §2(g) of the NHA, FHA has two years from the date the claim is paid to demand a repurchase for violation of FHA's claim submission requirements (except in the case of fraud or misrepresentation on the part of the claimant in the origination or with respect to the claims process, in which case there is no time limit). Consistent with existing practice, when a loan is repurchased, FHA will return the claim file to the lender.

Section 9-6 of Appendix 9, Claim Submission, is revised in this Title I letter to insert the following section.

Section 9-6 F, Documents no Longer a Basis for Denial of Claim Payment. For loan applications dated on or after June 1, 2009, since an underwriting review is performed prior to loan insurance, the following documents submitted with the form HUD-637 will no longer be a basis for denial of claim payment:

Form HUD-637

Section A

- Truth-in-Lending Disclosure
- Mortgage, Deed of Trust, Other Security Instrument with Original Recorded Assignment to USA
- Credit Application
- Consumer Credit Report
- Verification of Employment and Income
- Verification of Self-Employment Income

Section C

- Verification of Deposit of Down Payment
- Calculation of Debt-to-Income Ratios
- Purchase Agreement
- Manufacturer's Invoice and FHA Supplement
- Invoices for Delivery and Set-up
- Invoices for Appraisals for Appurtenances
- Value Determination on Trade-In
- HUD-Approved Appraisal of Existing Home and/or Lot
- Advance Notice of Disbursement to Dealer or Seller
- Manufacturer Warranty on New Home
- Placement Certificate
- Evidence of Ownership or Leasehold for Individual Homesite
- Certification of Park or Individual Homesite Approval

Section 9-10 E, Error on the Appraisal. This heading is revised by this Title I letter to read as follows:

E. Error on the Appraisal Obtained in Connection with the Repossession of the Manufactured Home.

WRITTEN VERIFICATION DOCUMENTS

Section 4-1 B of Appendix 4, Documentation. This Title I letter clarifies the current language in Section 4-1B of Appendix 4 indicating that lenders may not accept or use written verification documents related to credit, employment or income that have been handled by or through interested parties, to include the borrower, the dealer and/or its agents. The written verification documents referred to in this section are lender generated direct verification documents, which are used to verify and supplement documentation submitted by the borrower at application. These verifications are to be sent directly from the lender to the requested responder to obtain independent, written verification of employment, income, rent, or financial accounts. These

verification documents must be sent directly from the lender to the responder and be returned from the responder directly to the lender, without going through interested parties.

VERIFICATION OF EMPLOYMENT AND INCOME

Section 4-4 A of Appendix 4, Verification Requirements. This Title I letter clarifies the requirement in Section 4-4A of Appendix 4 that the lender must verify and document the borrower's employment and income history for the past two years and determine the likelihood of continued employment. If the lender, using sound and reasonable judgment, determines that the borrower's history warrants additional verification to determine the likelihood of continued employment, the lender must contact the employer to receive a statement addressing this topic. The lender may send a written verification form that requests this information, or it may choose to verify this verbally. All verbal verifications must be properly documented and submitted with the pre-closing, pre-endorsement, and claim packages.

FLOOD INSURANCE

Section 5-5 B of Appendix 5, Flood Insurance. This Title I letter amends Section 5-5B of Appendix 5 to provide a fuller description of the policy that was already in place prior to the issuance of TI-481, and remains unchanged by TI-481.

If a borrower does not maintain flood insurance when required by FHA regulation, 24 CFR 201.28, the lender should force-place the insurance and may pass on the expense to the borrower. However, the cost of such insurance may not be included in the calculation of HUD's claim payment.

When a lender obtains title to a home through repossession, the lender may obtain and maintain flood insurance if the property is or will be located in a special flood hazard area identified by the Federal Emergency Management Agency (FEMA) until the sale or disposition of the home. The amount of the insurance may be no less than the unpaid balance due on the Title I loan, or not less than the actual value of the home where State law precludes a higher amount. The cost of such insurance may be included in the calculation of HUD's claim payment.

If the lender fails to obtain such flood insurance and an uninsured home is damaged, HUD will adjust its claim payment. When a manufactured home is without flood insurance and has sustained, at any time prior to the sale or disposition of the home, damage that would normally be covered by such insurance, the appraised value for claim calculation purposes will be based on the retail value of comparable homes in undamaged condition without any deduction for such damage.

REFINANCING PRE-PROGRAM REVISION LOANS

Section 11-3 of Appendix 11 overlooked the requirement for all refinanced manufactured home loans to be subject to the new provisions of the Title I Manufactured Home Loan Program, as revised under HERA. This Title I letter corrects that omission as set forth below.

Section 11-3 E of Appendix 11, Refinancing Pre-program Revision Loans, is rescinded by this Title I letter in its entirety. The FHA Manufactured Housing Loan Modernization Act of

2008 requires all newly refinanced manufactured housing loans to be subject to all provisions and guidelines of the Act. Therefore, manufactured housing loans originated under the original Title I portfolio loan insurance program prior to HERA, may be refinanced, but will be subject to all provisions and guidelines as specified under the Manufactured Housing Loan Modernization Act of 2008.

Section 11-3 F of Appendix 11, Refinancing Pre-program Revision Loans to Revised Program Loan. This Title I letter amends Section 11-3F of Appendix 11 as follows:

A portfolio loan product may not be refinanced under streamline refinance guidelines, but may be refinanced under the new program, subject to all of the provisions and guidelines as revised under the Manufactured Housing Loan Modernization Act of 2008.

Portfolio loans that are refinanced to a new loan under the revised program will be removed from the lender's portfolio insurance reserve account and will be individually insured, subject to the upfront insurance premium and the annual premium as specified in Appendix 7.

REFINANCE

Section 11-1 B of Appendix 11, Conventional Refinance. specifies the conditions under which a conventional loan may be refinanced to a Title I loan. This Title I letter amends section 11-1 B to clarify the conditions as follows:

- The original loan must not be in default.
- A new appraisal is required to determine the eligible loan amount.
- The new loan must retain the original borrowers.
- The new loan is subject to all provisions and guidelines as specified under the Manufactured Housing Loan Modernization Act of 2008.

Section 11-2 A of Appendix 11, Streamline Refinance. This Title I letter amends Section 11-2A of Appendix 11 to reflect that all new manufactured home loans are subject to the new provisions of the Title I Manufactured Home Loan Program, as revised under HERA.

The total principal amount for a loan made to refinance an existing Title I insured manufactured home loan, lot loan, or combination loan may not exceed the cost of prepaying the existing loan, plus the addition of the upfront insurance premium. This option is only available for loans originated under the provisions and guidelines of the Manufactured Housing Loan Modernization Act of 2008, and is not permitted for loans originated under the portfolio loan program.

Section 11-2 B of Appendix 11, Refinance to Add a Lot. This Title I letter amends Section 11-2C of Appendix 11 to clarify the basis for determining the loan amount as follows:

The maximum combination loan amount is the cost of prepaying the existing loan on the manufactured home, plus the lesser of the purchase price or the appraised value of the lot as determined by a HUD-approved appraisal. The cost of the upfront premium charge may be added

to the loan.

COMBINATION LOANS Section 10-3 D of Appendix 10 was inadvertently omitted from TI-481.

Section 10-3, D of Appendix 10, Disbursement Condition. This Title I letter revises Section 10-3D of Appendix 10 in its entirety to read as follows:

The Title I program requires a combination loan to be closed as a single transaction. This can mean that funds are advanced to purchase the lot, but the manufactured home may not be able to be placed on the lot for up to several months after closing. When this occurs, the upfront insurance premium due must be paid within 10 days of the final loan disbursement for the manufactured home unit and the loan file must be submitted for endorsement within 30 days of this same disbursement date. The lender may not charge the borrower interim interest on the money advanced to pay for the lot.

APPRAISALS ON COMBINATION LOANS WITH EXISTING HOMES

Section 10-5 of Appendix 10, Appraisals. This Title I letter amends Section 10-5 of Appendix 10 to clarify the type of appraisals required, as follows:

If the loan will include an existing manufactured home that is considered personal property, the lender must obtain a personal property appraisal in addition to a real estate appraisal for the land. If the existing home has been placed on a permanent foundation and is now classified as real estate, the lender shall obtain a single appraisal from an FHA Title II Roster appraiser, who must certify to prior experience appraising manufactured homes as real property.

PAYMENTS ON THE LOAN

Section 2-5 B of Appendix 2, Payments on the Loan, provides for equal installment payments on the loan which are due monthly. This Title I letter clarifies that the lender is permitted to increase the first and last payment of the loan, but not by more than 1.5 times the amount of the regular monthly installment payment, as per 24 CFR 201.14 .

LOAN DEFAULT AND LOSS MITIGATION

Section 8-5 B (2) of Appendix 8 Modification Agreement.

In addition to all requirements stated for loan modifications, this Title I letter clarifies the current policy to permit the first and last payment under a modification agreement to be higher than the modified regular installment payment, but not by more than 1.5 times the amount of the modified regular installment payment, consistent with 24 CFR 201.14.

PERIODIC (ANNUAL) PREMIUM CALCULATION

Section 7-2 C of Appendix 7, Annual Mortgage Insurance Premium is revised to read: The annual premium calculation is based on the reducing principal balance. The premium calculation formula may be located on HUD's web-site at: <http://www.hud.gov/offices/hsg/comp/premiums/sfpcalc.cfm>

Section 7-6 of Appendix 7, Abatement of Premium Charges is revised to read as follows: After loan insurance termination, HUD will bill the lender for the pro-rated annual premium charge due for the number of full months between the loan anniversary date and the date of termination. Future annual premium charges are abated and billing for charges ceases.

REFUND OF PREMIUM CHARGES

Section 7-7 B of Appendix 7, Annual Premium Charges, is revised by this Title I letter to read as follows:

All annual premium charges are considered to be earned when paid. Future premium charges are abated following termination of insurance because a borrower repays a loan in full or the lender files a claim with HUD. However, because annual premium charges are billed and paid one year in arrears, lenders will be billed for the pro-rated portion of the unpaid annual premium charge, calculated from the loan's anniversary date to the date of termination. Likewise, if a loan is refinanced into another Title I loan, lenders will be billed for the pro-rated portion of the unpaid annual premium charge associated with the old loan. HUD will use the loan's anniversary date and the date of the refinance to calculate the amount to be pro-rated. In cases where a Title I loan that was insured by HUD under the portfolio program requirements that were in effect prior to the enactment of the Manufactured Housing Loan Modernization Act of 2008 is refinanced, lenders will receive a credit for the pro-rated portion of the paid annual premium charge from the refinance date to the future anniversary date because the annual premium charges associated with those loans are billed and paid in advance.

TITLE I LETTERS AND MORTGAGEE LETTERS

Section 4-1 of Appendix 4, Overview and Section 12-4 of Appendix 12, Title I Letters and Mortgagee Letters, states that a Title I lender should refer to Title II Mortgagee Letters for guidance if a particular issue is not specifically addressed in Title I resources. This Title I letter retracts this statement in its entirety. Title I lenders must seek guidance for any unaddressed issue from the Office of Single Family Program Development, Home Mortgage Insurance Division, Washington DC, 20410. See Appendix 12-6 B for contact information.

FINANCIAL OPERATIONS CENTER – CLAIMS BRANCH

Section 9-6 A of Appendix 9, Mailing and Tracking the Claim, contains the "Attention To" line of "Claims Branch" and the "Attention To" line is revised to reflect the change. This office's name has officially been changed to "Endorsement and Claims Processing Branch". In addition, Section 12-6 E (1) of **Appendix 12, Processing and Claims Branch**, is amended to read Endorsement and Claims Processing Branch.

SINGLE FAMILY PROGRAM DEVELOPMENT – HOME MORTGAGE INSURANCE DIVISION

Section 12-6 B of **Appendix 12, Single Family Home Mortgage Insurance Division**, is revised by this TI-484 letter to correct the contact fax number for the Home Mortgage Insurance Division to 202-708-4308.

If you have questions regarding this Title I letter, please contact the FHA Resource Center at 1-800-CALL-FHA (1-800-225-5342). Persons with hearing or speech impairments may access the number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

David H. Stevens
Assistant Secretary for Housing-
Federal Housing Commissioner