

Program Description

FHA Secure

Overview of FHA Secure

The FHA Secure program provides Franklin Bank an opportunity to fulfill the FHA initiative detailed in Mortgagee Letter 2007-11 (September 5, 2007). This program is specifically designed to refinance homeowners that financed their primary residences with Adjustable Rate Mortgages (ARMs) that have now reset and, as a result of the reset, have an increased mortgage payment which has resulted in mortgage delinquency.

This program is designed to permit homeowners, who prior to their reset, demonstrated an ability to meet their mortgage obligations, an opportunity to refinance into a prime-rate FHA insured mortgage. In some cases, homeowners may be permitted to include mortgage payment arrearages into the new loan amount, subject to existing geographical mortgage limits and the loan-to-value limits shown below.

Note: The FHA Secure initiative for refinancing borrowers who were "harmed" by non-FHA ARMs that have recently reset is not to be used to solicit homeowners to cease making timely mortgage payments. Franklin Bank reserves the right to reject those mortgage applications where it appears that a loan officer or other employee suggested that the homeowners could or should stop making their payments, refinance into a FHA insured mortgage, and keep, as cash, the amount of payments not made on time.

Available Products and Terms

Product Code: FS30 – FHA Secure 30 Year Fixed Rate

Loan Purpose

Refinance (Rate/Term Only)

Occupancy

Owner Occupied Primary Residences

Available Markets

All 50 States

Eligible Properties

Single Family detached and attached properties (PUDs and FHA Approved Condominiums)

2-4 Unit properties

Ineligible Properties

Manufactured Housing

Properties that do not meet HUD's minimum property standards

Properties that are not residential in nature (farms, orchards, commercial properties, mixed-use, etc.)

Min/Max Loan Amount

Current HUD statutory limits apply by the county in which the property is located

Documentation Type

Full doc as per HUD's guidelines

Qualifying Rate

Note Rate

Qualifying Ratios

31%/43%

Escrow Waivers

Not Allowed

Maximum Loan-to-Value Ratios (LTVs) (exclusive of upfront mortgage insurance premium)

States with Average Closing Costs at or below 2.1 percent of Sales Price

- 98.75% for properties with appraised values equal to or less than \$50,000
- 97.65% for properties with appraised values in excess of \$50,000 up to \$125,000
- 97.15% for properties with appraised values in excess of \$125,000

States with Average Closing Costs above 2.1 percent of Sales Price

- 98.75% for properties with appraised values equal to or less than \$50,000
- 97.75% for properties with appraised values in excess of \$50,000

Eligibility for FHA Secure

1. The mortgage being refinanced must be a non-FHA ARM that has reset
2. The mortgagor's payment history on the non-FHA ARM must show that, prior to the reset of the mortgage, the mortgagor was current in making the monthly mortgage payments, i.e., the homeowner's mortgage payment history during the 6 months prior to the reset showed no instances of making mortgage payments outside the month in which they were due.
3. The underwriter must determine that the reset of the non-FHA ARM monthly payments caused the mortgagor's inability to make the monthly payment(s) and that the mortgagor has sufficient income and resources to make the monthly payments under the new FHA-insured refinance mortgage.
4. If there is sufficient equity in the home and subject to additional eligibility, the new refinance FHA insured mortgage may include missed mortgage payments.
5. Under certain circumstances it is permissible for (1.) the existing note holder to write-off the amount of the indebtedness that cannot be refinanced into the FHA insured mortgage; or (2.) the FHA approved lender making the new mortgage or the existing note holder may take back a second lien that includes closing costs, arrearages or previous secondary financing if the indebtedness exceeds FHA prescribed LTV and/or maximum mortgage amount limits. (See Subordinate Financing section below for Franklin Bank's policy on taking back second liens.)

Calculating the Maximum FHA Mortgage Amount

The amount of the FHA Secure mortgage may not exceed either the geographical maximum mortgage limits or the loan-to-value ratios shown above. It is permissible to include the existing first lien, any purchase money second mortgage, closing costs, prepaid expenses, discount points, prepayment penalties and late charges into the new loan amount. It is also permissible to include arrearages (PITI) into the new loan amount provided the arrearages arose after the reset.

Subordinate Financing

If the new maximum FHA loan is not enough to pay off the existing first lien, closing costs and arrearages, the lender may execute a second lien at closing to pay off the difference. The combined amount of the FHA Secure first mortgage and any subordinate non-FHA insured lien may exceed the applicable FHA loan-to-value ratio and geographical maximum mortgage amount. If payments on the second are required, they must be included in qualifying the borrower. If payments are deferred, they



must be so for no less than 36 months to not be considered in the qualifying ratios. Borrowers need not yet have missed any mortgage payments to be eligible for this type of subordinate financing.

Franklin Bank will only fund new second mortgages with a new FHA Secure mortgage when the loan being refinanced is being serviced by Franklin Bank and it is additionally subject to prior Secondary Marketing Department approval.

Underwriting

FHA TOTAL SCORECARD is encouraged to obtain risk classifications on each mortgage originated under the FHA Secure initiative. If TOTAL SCORECARD renders and accept/approve, the underwriter is not required to perform a personal review of the borrower's credit history and capacity to repay. However, in the more likely event that the risk class is a refer, the underwriter must:

1. Determine that the homeowner has the capacity to make future mortgage payments, as well as pay all other obligations. The maximum payment-to-income ratio and debt-to-income ratios remain 31 percent and 43 percent, respectively.
2. Analyze the homeowners overall credit history, especially payments on the existing mortgage. The underwriter must determine that the homeowners mortgage payment history during the 6 months prior to the reset showed no instances of making mortgage payments outside the month due and that other recurring obligations were paid on time. If the borrower was offered partial forbearance after the interest rate reset, the underwriter must determine that the borrower has made payments under the forbearance agreement in a timely manner.
3. The underwriter must be able by documentable means they deem appropriate, to provide comments in the remarks section of the mortgage credit analysis worksheet that he/she has determined that the cause of the borrower's inability to make payments was directly related to the increased payment attributable to the reset and not due to a disregard for obligations.

Tax Consequences

There may be tax consequences resulting from debt relief, i.e. when the note holder writes off a portion of the amount to payoff the first mortgage. Borrowers should be encouraged to seek competent 3rd party tax advice.

Appraisal Requirements

- Standard FHA appraisal requirements apply.
- In declining markets, contact underwriter for further guidance

Pricing

The daily Franklin Bank rate sheet will contain a single interest rate quote for FHA Secure 30 Year Fixed Rate loans which pays a premium price of -1.000. That interest rate is subject to change daily and is determined by Secondary Marketing. No other quotes are available.

Lock Requests

1. Register the loan in Easy Lender
2. Complete a Franklin Bank Retail Lock Request Form with the product code of FS30 and list the rate and price from the current rate sheet in effect.
3. Fax the lock request form to 866-237-4207.