

CMS Government Guideline Overlays

Mortgage Lending Division

Version 3.5 – 11/10/22



CMS FHA Guideline Overlays:	FHA Guidance	Overlay
Additional requirements for FICO \leq 640 and DTI $>$ 43%, regardless of HUD field office.	No specific requirements	CMS requires: <ol style="list-style-type: none"> 1. Letter of explanation for all derogatory credit 2. Current VOR with 12 month rating
Additional requirements for FICO \leq 640 and DTI $>$ 43% in the Albany, NY HUD field office (Case Numbers begin with 371).	No specific requirements	Loans must comply with all FHA manual underwriting requirements, including (but not limited to) explanation for derogatory credit, VOR, reserves, comp factors, and acceptable credit.
SSN verification for individuals employed by the World Bank, a foreign embassy or equivalent employer identified by HUD, state and local government agencies, Instrumentalities of Government, and HUD-approved Nonprofit organizations.	HUD does not require	All Borrowers must provide evidence of valid SSN.
Unacceptable assets for minimum required investment: Private Savings Clubs	HUD allows under strict guidelines	Maintain overlay due to complexity of meeting HUD guideline requirements.
Verification/ documentation of EMD of 1% or less of sale price is required to verify minimum required investment- all funds to close must be documented from an acceptable source Note: Not applicable for Delegated Correspondent Loans.	HUD doesn't require the EMD to be verified if less than 1% and funds are not being used as MRI	Maintain overlay due to layered risk. Even though HUD states this guidance in one part of the 4000.1, there is another guideline that states all funds must be verified from an acceptable source.
Unacceptable gift donors include "family like relationship" Note: Not applicable for Delegated Correspondent Loans.	HUD allows if documented	Maintain overlay. Currently CMS requires UW Manager or Lead approval due to the recent restrictions / removal of "cousins" and proper documentation requirements in the 4000.1.
General ineligibility: escrow waivers, temporary buydowns, Energy Efficient Mortgages, Mortgage Credit Certificate / Section 8 Voucher	HUD allows	Maintain overlays.

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Down Payment Assistance (DPA) Programs	HUD allows	Not permitted.
CMS may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two (2) years and it is reasonably likely to continue. Note: Not applicable for Delegated Correspondent Loans.	HUD Requirement: Periods of Overtime and Bonus Income less than two years may be considered Effective Income if Mortgagee documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.	Maintain overlay. Supervisor/Manager approval is required to use Overtime and Bonus Income of 12-24 months.
Ineligible properties: Single wide manufactured homes, FHA Secondary Residences, Construction to Perm, properties located on Tribal Lands, sewage lakes, or properties located on sink holes.	HUD allows.	Maintain overlays due to layered risk.
Cash on hand is not permitted as a source of funds.	HUD permits with cash deposited in a financial institution, explanation how funds were accumulated and amount of time, and reasonable ness based on income stream, spending habits, expenses, and use of banks.	Maintain overlay. Exceptions may be considered on a case by case basis by underwriting management.
Borrower debts paid by Sole Proprietors/Schedule C businesses may not be excluded. Note: Not applicable for Delegated Correspondent Loans.	HB 4000.1 does not restrict debts paid by a particular business structure.	Maintain overlay.
Sweat Equity.	HUD permits subject to numerous requirements.	Not permitted.

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CMS VA Guideline Overlays:	VA Guidance	Overlay
CMS Maximum Loan Amounts are stated in the VA Matrices.	VA does not have a maximum loan amount.	CMS loan amounts are limited to the maximum FHFA conforming high balance limit. Exceptions may be considered jointly by Secondary and Underwriting.
Manually underwritten VA loans (including IRRRLs) must be current for the month due. Housing history 0 x 30 for last 12 months: exceptions may be considered with written LOE's from Borrower and approved by the Underwriting Manager.	VA does not provide guidance on housing lates for Purchase, Cash Out or IRRRL transactions. Existing liens may be delinquent.	Maintain Overlay.
CMS does not extend financing on veteran-non veteran joint loans.	VA allows joint VA loan with VA prior approval	Maintain Overlay. Permit two-veteran joint loans; however, veteran-non veteran joint loans will be reviewed on an exception basis.
Ineligible properties, more than 1 manufactured home (ADU)	VA is silent on ADU	Maintain Overlay.
Excluding debt as under contingent liability guidelines requires proof of 12 months payments by the other obligor.	No minimum number of payments are specified.	Maintain overlay. 12 months payments must be documented to exclude debt.
Down Payment Assistance (DPA) Programs	VA allows	Not permitted.
Income verification	A borrower may have a valid offer of employment which will begin at or after the anticipated date of closing which can be verified. All data pertinent to underwriting procedures should be considered. However, a paystub(s) may not be available.	A pay stub is required for all borrowers qualifying with wages.
Sale of personal property	No VA guidance	AUS Approve – Bill of sale and evidence of proceeds; Manual Underwrite – Proof of ownership, support for the value of the asset, bill of sale, receipt of proceeds, and buyer must not be party to the transaction.

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CMS VA Guideline Overlays:	VA Guidance	Overlay
All funds to close must be verified with a 1 month bank statement (AUS) or 2 months bank statements (Manual).	DU Findings may provide a waiver of assets when cash to close is <4%	CMS requires all funds to close to be documented, asset waiver is not permitted for full doc loans.
CMS USDA Guideline Overlays:	USDA Guidance	Overlay
Down Payment Assistance (DPA) Programs	USDA allows	Not permitted.
CMS does not have any additional overlays specific to USDA		