Conforming Fixed Rate Products – Full Documentation

All loans must be locked prior to submission to underwriting

DU-PRIMARY RESIDENCE					LP-PRIMARY RESIDENCE[2]				
Units	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**	**Units**	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**
Purchase and Rate & Term Refinance									
1	97%[1]	97%[1]	97%[1]	620	1	95%	95%	95%	620
1	95%	95%	95%	620	2	85%	85%	85%	620
2	95%[3]	95%	95%	620	3-4	80%	80%	80%	620
3-4	95%[3]	95%	95%	620					
Cash Out Refinance									
1	80%	80%	80%	620	1	80%	80%	80%	620
2-4	75%	75%	75%	620	2-4	75%	75%	75%	620

DU-SECOND HOME					LP-SECOND HOME[2]				
Units	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**	**Units**	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**
Purchase and Rate & Term Refinance									
1	90%	90%	90%	620	1	90%	90%	90%	620
Cash Out Refinance									
1	75%	75%	75%	620	1	75%	75%	75%	620

DU-INVESTMENT PROPERTIES					LP-INVESTMENT PROPERTIES[2]				
Units	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**	**Units**	**LTV**	**CLTV**	**HCLTV**	**Credit Score**
Purchase									
1	85%[3]	85%	85%	620	1	85%[3]	85%	85%	620
2-4	75%	75%	75%	620	2-4	75%	75%	75%	620
Rate & Term Refinance									
1-4	75%	75%	75%	620	1	85%[3]	85%	85%	620
					2-4	75%	75%	75%	620
Cash Out Refinance									
1	75%	75%	75%	620	1	75%	75%	75%	620
2-4	70%	70%	70%	620	2-4	70%	70%	70%	620

[1]DU-LTV 95.01-97%

- Max 105% CLTV if the subordinate lien is a Community Second
- For purchase transactions, at least one borrower must be a first time home buyer. For limited cash-out refinances, Fannie Mae must be the owner of the existing mortgage.
- No Manual Underwrites
- Homebuyer Education is required when all borrowers are first-time homebuyers.

[2]LP LOANS

- LPA Accept Findings only
- No Manual Underwrites

[3] LTV> 80% subject to MI Requirements

	2023 Loan Limits
Units	**Standard**
1	**$726,200**
2	**$929,850**
3	**$1,123,900**
4	**$1,396,800**

Use this link to determine geographic eligibility and maximum loan amount.

Note: Minimum loan amount is $50,000.

High Balance Fixed - DU Approve/Eligible Only[1]

Units	LTV	CLTV	Maximum HCLTV	Credit Score
PRIMARY RESIDENCE				
Purchase and Rate & Term Refinance				
1	95%	95%	95%	620
2	85%	85%	85%	
3 - 4	75%	75%	75%	
Cash Out Refinance				
1	80%	80%	80%	620
2 - 4	75%	75%	75%	
SECOND HOME				
Purchase and Rate & Term Refinance				
1	90%	90%	90%	620
Cash-Out Refinance				
1	75%	75%	75%	620
INVESTMENT PROPERTIES				
Purchase				
1	85%[2]	85%	85%	620
2 - 4	75%	75%	75%	
Rate & Term Refinance				
1 - 4	75%	75%	75%	620
Cash-Out Refinance				
1	75%	75%	75%	620
2 - 4	70%	70%	70%	

[1] Manual Underwrites are not allowed.

[2] LTV > 80% subject to MI requirements.

2023 High Balance Loan Amounts		
Units	**Minimum Loan Amount**	**Maximum Loan Amount**
1	**$726,201**	**$1,089,300**
2	**$929,851**	**$1,394,775**
3	**$1,123,901**	**$1,685,850**
4	**$1,396,801**	**$2,095,200**
Use this link to determine geographic eligibility and maximum loan amount.		

Super Conforming Fixed Products – LP Only[1]

Units	LTV	CLTV	Maximum HCLTV	Credit Score
PRIMARY RESIDENCE				
Purchase and Rate & Term Refinance				
1	95%	95%	95%	620
2 - 4	80%	80%	80%	620
Cash Out Refinance				
1	80%	80%	80%	620
2 - 4	75%	75%	75%	620
SECOND HOME				
Purchase and Rate & Term Refinance				
1	85%	85%	85%	620
Cash Out Refinance				
1	75%	75%	75%	620
INVESTMENT PROPERTIES				
Purchase and Rate & Term Refinance				
1	85%[2]	85%	85%	620
2 - 4	75%	75%	75%	620
Cash-Out Refinance				
1	75%	75%	75%	620
2 - 4	70%	70%	70%	620

[1] LP Accept Findings only. No manual underwrites.

[2] LTV > 80% subject to MI requirements.

2023 High Balance Loan Amounts

Units	Minimum Loan Amount	Maximum Loan Amount
1	**$726,201**	**$1,089,300**
2	**$929,851**	**$1,394,775**
3	**$1,123,901**	**$1,685,850**
4	**$1,396,801**	**$2,095,200**

Use this link to determine geographic eligibility and maximum loan amount.

General Information

Mortgage Insurance

Required on all loans exceeding an 80% LTV (**reduced MI is not eligible**)

- Borrower Paid Financed – must qualify for QM. (Must also meet financed guidelines below)
- Borrower Paid Single Premium MI Option
- Monthly
- Reduced MI – DU must reflect option is eligible. Pricing adjustment will apply.
- Lender Paid MI
- Split Premium MI
    - Upfront portion may be financed if:
        - DU only
        - The upfront portion is included in the loan amount
        - The loan amount, including the financed mortgage insurance premium, does not exceed the maximum loan limit
        - The loan purpose is purchase or limited cash-out refinance
        - The subject property is a 1-unit primary residence or second home
        - The MI coverage amount is determined based on the base LTV ratio (the LTV ratio calculated without the financed premium; however, in no instance can the maximum LTV be exceeded with the financed premium).

LTV	<=20 year
80.01% - 85%	**6%**
85.01% - 90%	**12%**
90.01% - 95%	**25%**
95.01% - 97%	**35%**

LTV	>20 Year
80.01% - 85%	**12%**
85.01% - 90%	**25%**
90.01% - 95%	**30%**
95.01% - 97%	**35%**

(Refer to current MI guidelines for declining markets)

Acceptable Mortgage Insurance Companies:

- Arch MI (www.archmi.com).
- MGIC (http://www.mgic.com)
- Enact (www.enactmi.com)
- Essent Guaranty (http://essent.us)
- Radian (http://www.radian.biz/page?name=HomePage)

Supporting Documentation

- All supporting documentation must be dated within 120 days of the Note Date (existing and new construction)

Borrower Eligibility

Borrower Eligibility

Maximum of 4 borrowers

- U. S. Citizens
- Permanent Resident Aliens
    - Provide Alien Registration Card (USCIS Form I-551)
- Non-Permanent Resident Aliens
    - Must be a legal resident as evidenced by a social security number.
    - Borrower must be employed in the U.S. and provide a copy of valid work permit.
        - Must be holding H1, H1B, or L1 visa classifications and the visa is valid for at least 90 days from the funding date. The name of the employer sponsoring the visa must appear on the visa documentation.
    - Tax Identification Number (TIN) is not acceptable.
- Inter-Vivos Revocable (Living) Trust (Eligibility Approved by Underwriter. UW must complete and certify Trust Review Checklist and State Specific Requirements)

Ineligible Borrowers

- Foreign Nationals

Co-Borrowers

Non-Occupant Co-Borrowers

May not be an interested party to the sales transaction.

- Maximum LTV 95% - with DU or LP approval only.
    - No minimum borrower contribution required (Owner Occ and 2nd Home)
    - DU - the maximum LTV/CLTV/HCLTV may not exceed 95% unless a Community Seconds is part of the transaction, in which case the CLTV may not exceed 105%.
- Non-occupying co-borrower's current housing expense must be verified (i.e., VOR, VOM, canceled checks).
- LPA: The mortgage must be a purchase or rate and term refinance transaction only. Non-occupying borrower not allowed with cash out refinances.

Flood Insurance	• For loans that require flood insurance, the flood insurance must be escrowed and may not be waived regardless of LTV. • Satisfactory evidence of escrowed flood insurance is required prior to close. • For premiums that are paid by a condominium association, homeowner's association or other group, escrows are not required.
Higher Priced Mortgage Loans (HPML)	QM Higher Priced Mortgage Loans • Must follow guidelines stated in the Rebuttable Presumption Section below o PIW (Property Inspection Waiver) and ACE (Automated Collateral Evaluation) – are ineligible for HPML Section 35 Higher Priced Mortgage Loans • Must follow guidelines stated in the Rebuttable Presumption Section below; and • Escrow account must be established and maintained for at least five (5) years; and Master Insurance Policy Exemption: Insurance premiums are exempt for units in a condominium or PUD when the unit's property is covered by a master insurance policy.
Homeownership Education	At least one borrower must complete homebuyer education for the following transactions: • If all borrowers on the loan are relying solely on nontraditional credit to qualify, regardless of the loan product or whether the borrowers are first-time homebuyers. • Purchase transactions with LTV/CLTV/HCLTV ratios greater than 95% when all borrowers are first-time homebuyers. • HomeReady purchase transactions, at least one borrower on the loan must complete homeownership education or counseling. Refer to Fannie Mae selling guide B2-2-06 Homeownership Education and Housing Counseling for specific counseling details.
Power of Attorney	• For requirements refer to Power of Attorney Job Aid and Power Of Attorney Check List
Rebuttable Presumption	If the APR is 1.5 percentage points or more higher than the APOR the loan has Rebuttable Presumption of Compliance with ATR and will require borrower to provide Fully Executed Budget Letter and meet Residual Income Requirements. Refer to General QM Final Rule Job Aid
Real Estate Owned (REO)	**Maximum # of Properties Financed** • DU - See Multiple Financed Properties (DU) Section below • LP – See Multiple Financed Properties (LPA) Section below **Investment Properties – Hazard Insurance Requirements** Rent Loss Insurance with minimum 6 months coverage is required. Rent loss insurance may be waived when: • Rental income from the subject property is not used for qualifying, AND • PITI and operating expense for the subject is included in the borrower's qualifying ratios. **Borrower Vacating Current Residence** When borrowers are vacating their current residence, the following guidelines must be met accordingly: **DU/LPA** Follow agency guidelines for partial or no rental history for conversion of current residence into investment property. Reserve requirements may still apply. Refer to Reserve Section. **Principal Residence Pending Sale (DU/LPA)** If the borrower's current residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan. However, the current principal residence's PITIA will not be required to be used in qualifying the borrower as long as the following documentation is provided: • The executed sales contract for the current residence, and • Confirmation that any financing contingencies have been cleared.

Financing Types

Multiple Financed Properties (DU)

If the mortgage is secured by the borrower’s primary residence there are no limitations on the number of other financed properties, the borrower has. If the mortgage is secured by a second home or investment property, the multiple financed properties policy below will apply:

1-6 Financed Properties:
- Standard eligibility guidelines apply (i.e., LTV, minimum credit scores, etc.)

7-10 Financed Properties:
- Minimum 720 Fico Score. All other standard eligibility guidelines apply
- Manual Underwrite not allowed

Financed property limit:
- Applies to the number of one- to four-unit residential properties where the borrower is personally obligated on the mortgage(s);
- Applies to the total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to Fannie Mae; includes the borrower’s principal residence, if financed; and
- Is cumulative for all borrowers (though jointly financed properties are only counted once).

Type of Property Ownership	Counted in Financed Properties
Commercial Real Estate	No
Multifamily property consisting of more than four units	No
Ownership in a timeshare	No
Ownership of a vacant lot (residential or Commercial),	No
Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on home)	No
The borrower is personally obligated on mortgages securing two investment properties and the co-borrower is personally obligated on mortgages securing three other investment properties, and they are jointly obligated on their principal residence mortgage. The borrower is refinancing the mortgage on one of the two investment properties. Thus, the borrowers have six financed properties.	Yes
The borrower and co-borrower are purchasing an investment property and they are already jointly obligated on the mortgages securing five other investment properties. In addition, they each own their own principal residence and are personally obligated on the mortgages. The new property being purchased is considered the borrowers' eighth financed property.	Yes
The borrower is purchasing a second home and is personally obligated on his or her principal residence mortgage. Additionally, the borrower owns four two-unit investment properties that are financed in the name of a limited liability company (LLC) of which he or she has a 50% ownership. Because the borrower is not personally obligated on the mortgages securing the investment properties, they would not be included in the property count and the result is only two financed properties.	No
The borrower is purchasing and financing two investment properties simultaneously. The borrower does not have a mortgage lien against his or her principal residence but does have a financed second home and is personally obligated on the mortgage, two existing financed investment properties and is personally obligated on both mortgages, and a financed building lot. In this instance, the borrower will have five financed properties because the financed building lot does not need to be included in the property count.	No

Reserve Requirements - See Reserve Requirement section below.

Multiple Financed Properties (LPA)

If the mortgage is secured by a second home or investment property, each borrower individually and all borrowers collectively must not be obligated (i.e., Notes, land contracts and/or any other debt or obligation) on more than (10) 1-4 unit financed properties, including the subject property and the borrower's primary residence.

1-6 Financed Properties:
- Standard eligibility guidelines apply (i.e., LTV, minimum credit scores, etc.)

7-10 Financed Properties:
- LP Accept required.
- Minimum 720 Fico Score. All other standard eligibility guidelines apply.
- Reserves Requirements – See Reserve Section below for requirements.
- All other standard eligibility guidelines apply.

Type of Property Ownership	Counted in Financed Properties
Commercial Real Estate	No
Multifamily (five or more units) real estate	No
Timeshare	No
Undeveloped land	No
Manufactured homes not titled as real property (chattel lien), unless the property is situated on the land that is titled as real property	No
Property titled in the name of the borrower's business provided that the borrower, in his or her individual capacity, is not obligated on Notes, land contracts and/or any debt or obligation related to such property	No
Property title in the name of a trust where the borrower is a trustee, provided that the borrower, in his or her individual capacity, is not obligated on Notes, land contracts and/or any debt or obligation related to such property	No

Non-Arms Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Non-arm's length transactions are allowed for the purchase of existing properties unless specifically forbidden for the particular scenario, such as delayed financing.

For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, or seller of the property, only purchase mortgage loans secured by a principal residence will be allowed. Newly constructed homes secured by a second home or investment property will not be allowed if the borrower has a relationship or business affiliation with the builder, developer, or seller of the property.

Principal Curtailment

DU
A principal curtailment (principal reduction) is allowed for the following reasons:
- The lender may apply a curtailment to refund the overpayment of fees or charged paid by the borrower, in any amount, in accordance with applicable regulatory requirements.
- If the borrower receives more cash back than is permitted for limited cash-out refinances, the lender can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement. The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount for the subject loan. For example, if the borrower received $3,500 cash back at closing on a loan amount of $200,000, the lender could apply a $1,500 curtailment. This would result in "net cash back" to the borrower of $2,000, thus meeting the limited cash-out refinance requirements.

If the curtailment is made at the time of closing, the amount must be clearly documented on the settlement statement. If the curtailment is applied after closing, but before delivery, the mortgage loan file must be documented with the amount of the curtailment and the reason or source of the curtailment (i.e., lender refund or borrower).

LPA
The borrower may receive cash back, or a principal curtailment may be made, on purchase transactions only as a result of the following:
- Reimbursement for the overpayment of costs, fees and charges paid by the borrower in connection with the purchase transaction. Examples include, but are not limited to, an earnest money deposit exceeding the required down payment amount, a fee paid at loan application that is covered by a financing concession at loan closing, a closing cost that is reduced after closing, or gift fund given at loan closing and exceeding the amount needed for closing.
- In jurisdictions where real estate taxes are paid in arrears, receipt of funds from the property seller for real estate taxes that cover a period to the Note Date.
- Refunds mandated by federal laws or regulations.

Principal Curtailment (cont.)	The minimum borrower contribution, if applicable, must be met at closing. If the projected cash back, as described above, results in the borrower not meeting the minimum borrower contribution at closing, the excess amount of the cash back must be applied as a principal curtailment. Any cash back or principal curtailment, as described above, must be reflected on the Settlement /Closing Disclosure Statement. In instances of reimbursement for the overpayment of costs, fees and charges, and/or refunds mandated by federal law or regulations, the mortgage file must include documentation supporting the amount and the reason for the reimbursement and/or refund.

Refinance	**DU - Continuity of Obligation**
	• Continuity of Obligation is no longer required. Follow applicable requirements below.
	  o Rate and Term: Borrower on title 1 day prior to disbursement date is eligible.
	  o Cash Out: Borrower on title for 6 months.
	
	LPA – General Requirements for all Refinance Mortgages
	For all refinance mortgages, when an existing Mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met:
	• At least one Borrower on the refinance Mortgage was a Borrower on the Mortgage being refinanced, or
	• At least one Borrower on the refinance Mortgage held title to and resided in the Mortgaged Premises as a Primary Residence for the most recent 12-month period and the Mortgage file contains documentation evidencing that the Borrower has been making timely Mortgage payments, including the payments for any secondary financing, for the most recent 12-month period, or
	• At least one Borrower on the refinance Mortgage inherited or was legally awarded the Mortgaged Premises (for example, in the case of divorce, separation or dissolution of a domestic partnership)
	
	<u>Limited Cash-out Refinance (Rate and Term)</u>
	• Properties that have been listed for sale must be taken off the market prior to disbursement date, and the borrower must provide written confirmation of their intent to occupy as their primary residence.
	• Pay off existing subordinate liens that were used in whole to acquire the subject property.
	• LTV is based off of current appraised value regardless of length of ownership.
	• Closing costs and prepaids may be included in the loan amount.
	<u>DU:</u>
	• The transaction is being used to obtain a new first mortgage secured by the same property to:
	  o Pay off the existing first mortgage (including an existing HELOC in first-lien position);
	  o Pay off an existing construction loan and documented construction cost overruns that were incurred outside of the interim construction financing for two-closing construction-to-permanent loans. (These construction costs overruns must be paid directly to the builder at closing); or
	  o Pay for construction costs to build the home for single-closing construction-to-permanent loans, which may include paying off an existing lot lien.
	• At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if the lender documents that:
	  o The borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or
	  o The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.
	  o **<u>Note:</u>** Properties held in an LLC do not meet the ownership eligibility requirements and cannot be considered as an allowable exception. At least one borrower (individually) must be on title prior to the application date of the new loan.
	• Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy-related improvements.
	• When the following conditions exist, the transaction is ineligible as a limited cash-out refinance and must be treated as a cash-out refinance:
	  o No outstanding first lien on the subject property (except for single-closing construction-to-permanent transactions, which are eligible as a limited cash-out refinance even though there is not an outstanding lien on the subject property);
	  o The proceeds are used to pay off a subordinate lien that was not used to purchase the property (other than the exceptions for paying off PACE loans and other debt used for energy-related improvements, described above);
	  o The borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount; and
	  o A short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or any refinance of that loan within six months.
	• The transaction is not eligible as a limited cash-out refinance if the borrower completed a cash-out refinance transaction with a note date 30 days or less prior to the application date of the new refinance secured by the subject property.

Refinance (cont.)

- Cash out limited to the lesser of 2% of the new principal amount or $2000

LPA:

- Pay off the principal and interest due, including a balance deferred under a loss mitigation plan, for the first mortgage, regardless of age, used to acquire the property; for renovation mortgages, the amount of the interim construction financing secured by the mortgage premises is considered an amount used to pay off the first mortgage.
- Pay off the principal and interest due, including a balance deferred under a loss mitigation plan, for the first mortgage, originated as a refinance transaction, with a Note date no less than thirty days prior to the Note date of the no cash-out refinance mortgage, as documented in the mortgage file (e.g., credit report or title commitment)
- Pay off any costs or fees associated with the satisfaction and release of the first mortgage (e.g., late fees, prepayment penalties, etc.)
- Pay off or pay down any junior liens secured by the mortgage premises, that were used in their entirety to acquire the subject property. Any remaining balance must be subordinated to the refinance mortgage.
- Pay related Closing Cost (Note: Real estate taxes that are past due and/or delinquent, as defined by the taxing authority, may not be paid with the proceeds of the no cash-out refinance mortgage, except that if the transaction results in cash out as permitted in the following bullet, these funds may be used to pay the delinquent taxes.
- Disbursed cash out to the borrower (or any other payee) up to the greater of 1% or $2000

LPA No-Cash Out Refinance when paying off PACE or PACE-like Obligations

For no-cash out refinance of mortgages secured by properties subject to PACE obligations that result in or provide for first lien priority and where the PACE obligations are paid off with the mortgage proceeds, the following requirements apply:

- The new refinance mortgage must be originated in accordance with all standard requirements for limited cash-out refinances,
- The mortgage being refinanced must be owned in whole or in part or securitized by Freddie Mac,
- The PACE obligation must be paid in full,
- The mortgage file must include evidence that the obligation being paid off is a PACE obligation that results in or provides for first lien priority.

Cash Out Refinance

- The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
- Power of Attorney may not be used for cash out refinances.
- Properties that have been listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan. Must provide cancelled listing.
- **DU: The following requirements apply:**
    - The transaction must be used to pay off existing mortgage loans by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it (the borrower owns the property free and clear at the time of refinance).
    - If an existing first mortgage is being paid off through the transaction, it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. This requirement does not apply:
        - To any existing subordinate liens being paid off through the transaction, or
        - When buying out a co-owner pursuant to a legal agreement.
    - At least one borrower must have been on title for at least six months prior to the disbursement date of the new loan.
    - If the DTI ratio exceeds 45%, six months reserves is required.
    - Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.
    - At least one borrower must have been on title to the subject property for at least six months prior to the disbursement date of the new loan, unless one of the following exceptions apply:
        - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
        - The delayed financing requirements below are met.
        - If the property was owned prior to closing by an LLC that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement. (In order to close, ownership must be transferred out of the LLC and into the name of the individual borrower).
        - If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.
    - The above ownership policy applies in addition to the requirement that an existing first mortgage being paid off through the refinance is at least 12 months old.

Refinance (cont.)

- **LPA: The following requirements apply:**
  A cash-out refinance mortgage secured by a Primary Residence; all borrowers must occupy the mortgaged premises.

  At least one borrower must have been on the title to the subject property for at least six months prior to the Note Date, except as specified below:
  - For cases in which the property is a leasehold estate, at least one borrower must have been lessee on the ground lease or lease agreement of the subject leasehold estate for at least six months
  - For cases in which title to the property is held by a limited liability company (LLC) or limited partnership (LP), the time the property was titled in the name of the LLC or LP may be included in the six-month requirement provided:
    - At least one borrower must have been the majority owner or had control of the LLC or LP since the date the property was acquired by the LLC or LP, and
    - Title must be transferred from the LLC or LP into the borrower's name on or before the Note Date

    If none of the borrower have been on the title to the subject property for at least six months prior to the Note Date of the cash-out refinance mortgage, the following requirements must be met:
    - At least one borrower on the refinance mortgage inherited or was legally awarded the subject property (for example, in the case of divorce, separation or dissolution of a domestic partnership)

    OR, all of the following (for borrowers seeking delayed financing):
    - The Settlement/Closing Disclosure Statement or an alternative form required by law from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property. A recoded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement or an alternative form required by law was not used for the purchase transaction.
    - The preliminary title report for the refinance transaction must reflect the borrower as the owner of the subject property and must reflect that there are no liens on the property.
    - The source of funds used to purchase the purchase the subject property must be fully documented.
    - If funds were borrowed to purchase the subject property:
      - Cash-out proceeds must be used to pay off or pay down the borrowed funds, as reflected on the Settlement/Closing Disclosure Statement for the refinance transaction
      - Additional cash-out is permitted only when all borrowed funds are paid in full
      - The payment on any remaining outstanding balance of the borrowed funds must be included in the DTI.
    - The amount of the refinance mortgage must not exceed the sum of the original purchase price and related closing costs as documented by the Settlement/Closing Disclosure Statement or an alternative form required by law for the purchase transaction, less any gift funds used to purchase the subject property. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement or an alternative form required by law was not used for the purchase transaction.
    - There must have been no affiliation or relationship between the buyer and seller of the purchase transaction.
  - When proceeds of a cash-out refinance mortgage are used to pay off a first lien mortgage, the first lien mortgage being refinanced must be seasoned for at least 12 months (i.e., at least 12 months must have passed between the Note Date of the mortgage being refinanced and the Note Date of the cash-out refinance mortgage), as documented in the mortgage file (e.g., on the credit report or title commitment).
  - The requirement that the mortgage being refinanced must be seasoned for at least 12 months does not apply when:
    - The cash-out refinance mortgage is a special purpose cash-out refinance mortgage that meets Freddie Mac requirements, or
    - The first lien mortgage being refinanced is a Home Equity Line of Credit (HELOC).
    - The cash-out refinance mortgage is a renovation mortgage.
  - A mortgage placed on a property previously owned free and clear by the borrower is considered a cash-out refinance mortgage.
- **LPA:** Reserves required per LPA findings.

Student Loan Cash-Out Refinance

This feature provides the opportunity for borrows to pay-off one or more student loans through the refinance transaction. The loan-level price adjustment that applies to cash-out refinance transactions will be waived when all the following requirements have been met:

√	Requirements for Student Loan Cash-Out Refinances
	The loan must be underwritten in DU.
	The standard cash-out refinance LTV/CLTV/HCLTV apply

Refinance (cont.)

	At least one student loan must be paid off with proceeds from the subject transaction with the following criteria: • Proceeds must be paid directly to the student loan servicer at closing; • At least one borrower must be obligated on the student loan(s) being paid off, and • The student loan must be paid in full – partial payments are not permitted.
	The transaction may also be used to pay off one of the following: • An existing first mortgage loan (including an existing HELOC in first-lien position); or • A single-closing construction-to-permanent loan to pay for construction costs to build the home, which may include paying off an existing lot lien.
	Only subordinate liens used to purchase the property may be paid off and included in the new mortgage.
	The transaction may be used to finance the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation.
	The borrower may receive cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations or apply a principal curtailment.
	Must include Special Feature Code (SFC) 841 and 003
	Unless otherwise stated, all other standard cash-out refinance requirements apply.

Delayed Financing

Borrowers who purchase the subject property within the past 6 months are eligible for a cash-out refinance if all the following conditions are met:

- Must be locked as cash out.
- The purchase transaction was an arms-length transaction.
- The borrower may have initially purchased the property as one of the following
    - A natural person;
    - An eligible *inter vivos* revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
    - An eligible land trust when the borrower is the beneficiary of the land trust; or
- An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and point on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for the cash-out transaction based on the current appraised value.)
- The transaction is documented by the HUD-1, which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a HUD-1 if a HUD-1 was not provided to the purchaser at time of sale.
- If the Source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the HUD-1 for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.
    - Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
- All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.
- **LPA:** See cash-out refinance section above for additional delayed financing requirements.

When refinancing an existing Texas Section 50(a)(6) lien, borrowers have three options:

- Texas Section 50(a)(6) cash-out refinance,
- Texas Section 50(a)(6) rate/tern refinance,
- Standard rate/term refinance – Texas Section 50(f)(2)
- For eligibility requirements, refer to Texas Refinance Matrix for complete details.

Special Feature Code

- Underwriter to confirm all special feature codes are reflected on the 1008 delivery screen.

Temporary Buydown	• Lender paid buydown only
	• Qualify at note rate
	• 95% Maximum LTV
	• Purchase and Rate and Term only
	• Primary Residence and Second Home only
	• AUS approval from DU or LP
	• All borrowers must have a credit score
	• Ineligible property types
	    o Manufactured Home
	    o Leasehold properties
	• Loans in Texas are not eligible

Credit

Bankruptcy	Seasoning requirement is defined as the date of event (as determined by credit report or other documented evidence) to disbursement date.
	• Chapter 7 and 11:
	    o Requires 4 years seasoning with re-established credit**.**
	• Chapter 13:
	    o Discharged BK 2 years seasoning.
	    o Dismissed BK 4 years seasoning.
	Note: Refer to Foreclosure Section regarding waiting periods when a mortgage debt was discharged through a bankruptcy. Must have evidence the borrower surrendered the home and did not reaffirm. If the borrower reaffirmed with intention to stay in the home the 7-year waiting period must be met.
	Multiple Bankruptcies:
	A 5-year elapsed time period is now required to re-establish credit from the most recent discharge or dismissal date for borrowers who have more than one bankruptcy filing in the past 7 years.

Charge Offs	**Charge-off of Non-Mortgage Accounts** Accounts that are reported as past due (not reported as collection accounts) must be brought current. • 1-unit, principal residence properties: Borrowers are not required to pay off non-mortgage charge-offs, regardless of the amount. o Note: Collection accounts marked as “Paid by Close” in the online loan application will received a message in the DU Underwriting Findings report stating that the collection must be paid. • 2-4 unit, owner occupied and second home properties: Non-mortgage charge-offs totaling more than $5,000 must be paid in full prior to or at closing. • Investment properties: Non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing. **Charge-off of a Mortgage Account** A charge-off of a mortgage account, including first liens, second liens, home improvement loans, HELOCs and manufactured home loans, occurs when a creditor has determined that there is little likelihood that the mortgage debt will be collected. When a charge-off of a mortgage account exists: • A 4-year waiting period from completion date to disbursement date is required.

Credit	**Refer to applicable product matrix for minimum credit score requirements**
	• Credit Report expires after 120 days (existing and new construction)
	• Tri Merge Credit Report must be ordered
	    o DU - Minimum 1 FICO score required for each borrower.
	        ▪ If one (or more) borrower(s) has a fico score and at least one borrower does not have a fico score, the following requirements must be met:
	            • The property must be a one-unit, principal residence, and all borrowers must occupy the property.
	            • The transaction must be a purchase or rate/term refinance.
	            • The loan amount must meet conforming loan limits. High balance is ineligible.
	            • Reserves may be required as determined by DU.
	            • If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, documentation of non-traditional credit history for the borrower(s) without a credit score is not required.
	            • If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, documentation of non-traditional credit history for each borrower without a credit score is required.
	            • Price adjustments may apply.
	    o LPA- LPA will determine if 1 FICO score is acceptable.

Credit (cont.)

- Mortgages where not all borrowers have a useable credit score, LPA will apply the following requirements:
    - At least one borrower on the transaction must have usable credit score, as determined by LPA,
    - The transaction must be a purchase or rate/term refinance,
    - The property must be 1-unit and all borrowers must occupy the property as their primary residence.
    - In addition, if the borrower(s) without a usable credit score contributes 50% or more of the total monthly income, the following requirements must be met:
        - Each borrower without a usable credit score must have at least two payment references and/or trade lines not appearing on the credit report. If two or more borrowers without a usable credit score have the same payment reference, then the payment reference may count for each of those borrows. Additionally:
            - Each payment reference must have existed for at least the most recent 12 months
        - At least one borrower without a usable credit score must have a **housing payment history** as one of the payment references; and
            - In the event more than one borrower without a usable credit score has a housing payment history, then all such housing payment histories for the most recent 12 months (or length of housing payment history if less than 12 months) must be verified
            - All housing payment histories must have no 30-day or greater delinquencies in the most recent 12 months.
        - For all payment reference **other than** housing:
            - Only one payment reference may have one 30-day delinquency in the most rent 12 months; and
            - All payment references may have no 60-day or greater delinquencies in the most recent 12 months
        - Each payment reference must meet Freddie Mac requirements for:
            - Written verifications,
            - Age of documentation, and
            - Documentation
        - Each borrower without a usable credit score must have no judgments, tax liens or collections (other than medical), filed in the most recent 24 months.

- Refreshed Credit Report is required within 10 business days of the Note date.
- Frozen Credit
    - If the borrower's credit information is frozen at one of the credit repositories for borrowers who have traditional credit, the credit report is still acceptable as longs as
        - Credit data is available from two repositories,
        - A credit score is obtained from at least one of those two repositories, and
        - A three in-file merged report was requested.
    - Note: Loans for borrowers with credit data frozen at two or more of the credit repositories will not be eligible whether underwritten manually or in DU.
- Documentation is required to verify that the borrower has sufficient funds to cover the unpaid balance of all 30-day charge accounts.
    - Example: American Express balance is paid monthly. Current balance is $1300. Borrower must provide evidence of funds to pay entire balance in addition to any regular reserve requirements and closing costs. The $1300 balance is not counted in the DTI ratios.
- Single payment Note (a loan that is due in one lump sum, including principal and interest):
    - At a minimum an interest only payment must be included in the debt ratio. Post-closing liquidity may not be used to offset payments.
- Disputed Accounts – Approve/Eligible
    - If AUS conditions for a disputed account, they must be resolved and re-scored prior to submission.
- Garnishments
    - Must be included in DTI ratios. However, does not need to be paid off prior to closing.
- Judgments and liens must be paid off and released at or prior to closing.
- If paying off a revolving account to qualify prior to or at close of escrow, account must be paid to zero ($0) in order to not count in debt ratio.
    - Paying down credit to qualify is not eligible.
    - Funds to pay account in full must be verified in file.
- **DU -** Authorized User Accounts – Approve/Eligible
    - When ensuring tradelines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only a few accounts of his/her own, the lender should establish:
        - The relationship of the borrower to the owner of the account,
        - If the borrower uses the account, and

Credit (cont.)

        - If the borrower makes the payments on the account.
    - If the authorized user tradeline belongs to another borrower on the mortgage loan, no additional investigation is needed. If the borrower has several tradelines in good standing and only a minor number of authorized user accounts, the lender could make the determination that:
        - The authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and
        - The information reported on the credit report is an accurate reflection of the borrower's credit history.
    - It is not required to review an authorized user tradeline that belongs to the borrower's spouse when the spouse is not on the mortgage transaction.
    - **For example,** does the authorized user account reflect how the borrower pays their own accounts? (i.e., authorized user account is paid on time but the borrowers own accounts are not paid on time). In this case, it is not a true reflection of how the borrower pays their credit therefore, additional items are needed to support credit history or the authorize user account must be removed. If the borrower and authorized user's credit supports on-time payments, additional information is not required.
- **DU -** Debts Paid by Others (Contingent Liability)
    - When a borrower is obligated on a non-mortgage debt - but is not the party who is repaying the debt – the lender may exclude the monthly payment from the borrower's recurring monthly obligations. This applies whether or not the other party is obligated on the debt but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement.
    - When a borrower is obligated on a mortgage debt – but is not the party who is repaying the debt – the lender may exclude the monthly payment from the borrower's recurring monthly obligations if:
        - The party making the payments is obligated on the mortgage debt,
        - There are no delinquencies in the most recent 12 months, and
        - The borrower is not using rental income from the applicable property to qualify.
    - To exclude contingent liabilities (non-mortgage or mortgage debts) from the borrower's DTI ratio, the lender must obtain:
        - Most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.
            - If any delinquent payments in the most recent 12 months are made debt must be included in the ratios regardless of number of cancelled checks provided.
        - When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.
- **LPA –** Debts Paid by Others (Contingent Liability)
    - A non-mortgage debt i.e., installment (other than mortgages), revolving, monthly lease payment, may be excluded from the DTI when the following requirements are met:
        - A party other than the borrower has been making timely payments for the most recent 12 months (regardless of whether the party is obligated on the debt)
        - The party making the payments is not an interested party to the subject property or mortgage transaction.
    - A mortgage debt may be excluded from the DTI when the following requirements are met:
        - A party other than the borrower has been making timely payments for the most recent 12 months,
        - The party making the payments is obligated on the Note for the mortgage that is being excluded,
        - The party making the payments is not an interested party to the subject property or mortgage transaction.
- **LPA –** Authorized User Accounts
    - LPA will return a feedback message indicating when the following requirements must be met:
        - The mortgage file must contain documentation evidencing that for each authorized user account:
            - Another borrower on the mortgage owns the tradeline in question, or
            - The tradeline is owned by the borrower's spouse, or
            - The borrower has been making the payments on the account for the last 12 months OR
            - If unable to document one of the above requirements for each authorized user accounts, the underwriter may make the determination that the authorized user accounts have an insignificant impact on the borrower's overall credit history and the information on the credit report is representative of the borrower's own credit reputation. The underwriter should base its determination on the number of the borrower's own tradelines, as well as their age, type, size and the payment history, as

Credit (cont.)

compared to the authorized user accounts. Documentation of the determination must be in the file.

- If unable to document any of the above four requirements when the feedback message is returned, the loan is not eligible as the LPA decision must be considered invalid.

- **DU -** Alimony/Child Support/Separate Maintenance Payments
  - When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement – and those payments must continue to be made for more than ten months – the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony.
    - For alimony obligations, the lender has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If this option is exercised, a copy of the divorce decree, separation agreement, court order or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.
    - ***Note:*** For loan casefiles underwritten through DU, when using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, enter the adjusted income figure as the income amount in DU.
- **LPA –** Alimony or maintenance payment with more than 10 months of payments remaining
  - The monthly payment amount must be documented in the mortgage file with a copy of the signed court order, legally binding separation agreement and/or final divorce decree, or equivalent documentation.
  - For alimony and maintenance payments being omitted from the DTI ratio due to 10 or fewer months of payments remaining, the mortgage file documentation must show that there are 10 or fewer months of payments remaining.
  - In lieu of including these payments in the calculation of the debt, the payments must be deducted from the borrower's stable monthly income. The reduced stable monthly income must be used to qualify the borrower.
- **LPA –** Child Support Payments – Child support payments with more than 10 months of payments remaining must be included in the borrowers DTI. The monthly payment amount must be documented with a copy of the signed court order, legally binding separation agreement and/or final divorce decree, or equivalent documentation. For child support payments being omitted from the DTI due to 10 or fewer months of payments remaining, the mortgage file documentation must show there are 10 or fewer months of payments remaining.
- Business Debt in Borrowers Name
  - When a self-employed borrower claims that a monthly obligation that appears on his/her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of the company funds and that this was considered in its cash flow analysis of the borrower's business.
    - The account payment does not need to be considered as part of the borrower's DTI ratio if:
      - The account in question does not have a history of delinquency,
      - The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of cancelled company checks), and
      - The lender's cash flow analysis of the business took payment of the obligation into consideration.
    - The account payment must be considered as part of the borrower's DTI ratio in any of the following situations:
      - If the business does not provide sufficient evidence that the obligation was paid out of company funds.
      - If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense, and taxes and insurance, if applicable equal or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
      - If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of the interest, taxes, or insurance expense, if any, that related to the account in question.
- Federal Income Tax Installment Agreements **(DU)**
  - When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the lender may include the monthly payment amount as part of the borrower's DTI (in lieu of requiring payment in full) if:
    - There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
    - The lender obtains the following documentation:
      - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and

Credit (cont.)

            - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

- Internal Revenue Service (IRS) Installment Agreements **(LPA)**
    - **IRS-approved installment agreements**
        - When the borrower is obligated on an installment agreement by the IRS for payment of past-due federal taxes, the following requirements must be met:
            - The monthly payment must be included in the borrower's DTI if there are more than 10 months of payments remaining on the installment agreement and
            - The lender must obtain and retain in the mortgage file a copy of the installment agreement approved by the IRS. The installment agreement must reflect the payment terms and verify the monthly payment amount and balance, and
            - The lender must document in the mortgage file that the borrower is not past due under the terms of the installment agreement, and
            - There must be no indication, and the lender must have no knowledge, that the IRS has filed a Notice of Federal Tax Lien for the taxes owed under the installment agreement.
    - **Applications for installment agreements pending IRS approval**
        - When the borrower has applied for an installment agreement with the IRS that is pending IRS approval, the following requirements must be met:
            - A copy of the application for the installment agreement reflecting the amount of taxes owed and requested payment terms must be include in the mortgage file,
            - The greater of the monthly payment amount requested by the borrower or the amount of taxes owed divided by 72 must be included in the borrower's monthly DTI, and
            - There must be no indication, and the lender must have no knowledge, that the IRS has filed a Notice of Federal Tax Lien for the taxes owed by the borrower.

Foreclosure / Deed-in-Lieu / Pre-Foreclosure Sale/Prior Restructure

Foreclosure	
DU	7 years - Seasoning requirement is defined as the date of event (as determined by credit report or other documented evidence) to disbursement date with re-established credit. • If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied so long as appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy is provided. Must have evidence the borrower surrendered the home and did not reaffirm. • If the borrower reaffirmed with intention to stay in the home, the 7-year waiting period must met. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods will apply. **Note:** A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).
LPA	7 years seasoning from the completion date to application date with re-established credit. Foreclosure less than 7 years may be allowed only if LPA Approval is received. No exceptions.

Prior Restructure (Loan Modification)	
DU/LPA	Loans that have been previously restructured or modified must meet standard housing payment history guidelines.

Pre-Foreclosure/Short Sale/Deed-in-Lieu of Foreclosure/Charge-Off of Mortgage Account	
DU	4 years seasoning from completion to **disbursement** date. Maximum financing allowed.
LPA	4 years up to 7 years seasoning from completion date to **application** date. Maximum 90% LTV/CLTV/HCLTV.

Housing Payment History

- Max 0x60 days reported within 12 months prior to the credit report date.

Note: For purposes of complying with the housing payment history requirements, timeshare accounts identified as mortgage tradelines are not required to meet the requirements described above and are considered an installment account.

Qualifying Ratios

- Determined by AUS
- **DU:** Cash-out refinance transactions with DTI > 45% must have at least 6 months reserves.

DTI Must Include:

Qualifying Ratios (cont.)

- Car Lease – regardless of time remaining on lease.
- Revolving accounts regardless of time remaining unless account is paid to zero ($0) prior to or at close of escrow.
- If payment is not shown, use 5% of outstanding balance.
- Installment Debt (not secured by a financial asset – i.e., student, auto, personal loans and timeshares)
    - All installment debt with > 10 months remaining must be included in DTI, even if deferred.
    - Installment debt with less than 10 months should be considered in the DTI if it significantly affects the borrower's ability to meet his/her credit obligations. For guidance on Federal Income Tax Installment Agreements refer to Credit Section above.
- Use credit report payment for current HELOC payments
- **LPA** – In the absence of a monthly payment on the credit report, and if there is no documentation in the mortgage file indicating a monthly payment amount, use 1.5% of the outstanding balance for the HELOC monthly payment amount. **Note:** Documentation of HELOC terms, including the monthly payment amount, is required for HELOC's originated concurrently with the first lien mortgage.
- **DU** - For all student loans, whether deferment, in forbearance, or in repayment (not deferred), must include a monthly payment in the borrower's recurring monthly debt obligation when qualifying the borrower.
    - If a monthly payment is provided on the credit report, use that amount as the monthly payment for qualifying purposes.
    - If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.
    - If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below:
        - If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
        - For deferred loans or loans in forbearance, the lender may calculate:
        - 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
        - A fully amortizing payment using the documented loan repayment terms.
- **LPA** – Student loans in deferment, forbearance or repayment
  In all cases, an amount greater than zero must be included in the monthly DTI ratio for all student loans, as described below. For student loans in deferment, forbearance or repayment, including income-driven repayment plans:
    - If the monthly payment amount reported on the credit report is greater than zero, use the monthly payment amount reported on the credit report, unless other documentation in the mortgage file supports a different current payment amount, or
    - If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding loan balance, as reported on the credit report unless other documentation in the mortgage file supports a different current payment amount.
- **LPA -** Student loans in deferment, forbearance or repayment, *including income-driven repayment plans*
    - For student loans in deferment, forbearance or repayment, including income-driven repayment plans:
        - Follow LPA Student loans in deferment, forbearance or repayment requirements above
    - For student loans in income-driven repayment plans:
        - The monthly payment amount, as described above, may be used for qualifying, unless documentation in the mortgage file indicates the borrower must recertify their income and/or the borrower's payment will increase price to or on the first mortgage payment due date
        - When documentation in the mortgage file indicates the borrower must recertify their income and/or that the borrower's payment will increase prior to or on the first mortgage payment due date, the lender must include in the monthly DTI ratio:
            - The greater of the current payment or 0.5% of the outstanding loan balance, or
            - The documented future payment amount if greater than the current payment, or
            - The future payment amount that is less than or equal to the current payment, provided that the mortgage file contains documentation that the borrower has recertified their income and the future payment amount has been approved.
- **LPA** – Student loan forgiveness, cancelation, discharge, and employment-contingent repayment programs
    - The student loan payment may be excluded from the monthly DTI provided the file contains documentation that indicates the following:
        - The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, or
        - The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, at the end of the deferment or forbearance period **AND**
        - The borrower is eligible or approved, as applicable for the student loan forgiveness, cancelation, discharge or employment contingent repayment program, as applicable, and the

Qualifying Ratios (cont.)

Seller is not aware of any circumstances that will make the borrower ineligible in the future. Evidence of eligibility of approval must come from the student loan program or the employer, as applicable.

DTI Does Not Include:

- Payments secured by a financial asset (i.e., 401k loan)

Income

Employment / Income

Follow AUS findings for income documentation requirements

- Refer to agency guideline for calculation requirements
    - For DU loans when the borrower or co-borrower is self-employed, and that income is not used for qualification purposes that income will not need to be documented or evaluated for income or loss. (As long as income used to qualify is derived from non-self-employed entity (i.e., W-2, SSI, etc.)
- A verbal VOE is required for all borrowers within 10 days prior to Note date.
- All loans require IRS Form 4506-C
    - Form 4506-C must be processed per AUS
    - For Business Form 4506-C to be signed but not processed (UW will condition for signed form PTD).

Note: Income derived from an activity that is deemed illegal by federal or state law (for example, income derived from a business that is legal by state law but illegal by federal law cannot be considered).

Assets

Assets

- Follow AUS for required documentation (i.e., 2 months Bank Statement or VOD).
    - **DU** Purchase transactions: The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter).
    - **DU** Refinance transactions: The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter).
- Retirement accounts use 60% of the current balance with evidence of terms of liquidation.
- Stocks, Bonds, Mutual Funds use 70% of the current balance with evidence of terms of liquidation.

Business Assets

Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves. Refer to Asset Job Aid for requirements.

Evaluating Large Deposits

When bank statements (typically covering the most recent two months) are used, the underwriter must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Requirements for evaluating large deposits vary based on the transaction type, as shown on in the table below.

NOTE: If the deposit falls within 50% of the gross income do not request an explanation. If an explanation is obtained and the source per the explanation is cash the deposit must be backed out of the assets.

Transaction	Evaluating Requirements
Refinance Transaction	Documentation or explanation for large deposits is not required; however, the underwriter remains responsible for ensuring that any borrowed funds, including any related liability, are considered in the total debt ratio.
Purchase Transaction	• If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the underwriter must document that those funds are from an acceptable source. Occasionally, a borrower may not have all the documentation required to confirm the source of deposit. In these instances, the underwriter must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio (DTI) and overall income and credit profile. Examples of acceptable documentation include: ○ The borrowers written explanation, ○ Proof of ownership of an asset that was sold, or ○ A copy of a wedding invitation to support receipt of gift funds. • The underwriter must include these items in the file and document rationale for using the funds. • Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the underwriter must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net of the unsourced amount of large deposit, that

Assets (cont.)	reduced amount must be used for underwriting purposes (whether the loan is underwritten through AUS or manually) **Example 1:** Borrower has monthly income of $4000 and an account at ABC Bank with a balance of $20,000. A deposit of $3,000 is identified, but $2,500 of that deposit is documented as coming from the borrower's Federal tax refund. • Only the unsourced $500 must be considered in the calculation whether it meets the large deposit definition. • The unsourced $500 is 12.5% of the borrower's $4,000 monthly income, falling short of the 50% definition of large deposit. • Therefore, it is not considered a large deposit and the entire $20,000 balance in the ABC Bank account can be used for underwriting purposes. **Example 2:** Using the same borrower example, a deposit of $3,000 is identified, but only $500 is documented as coming from the borrower's Federal income tax refund, leaving $2,500 unsourced. • In this example, the unsourced $2,500 is 63% of the borrower's $4,000 monthly income, which does meet the definition of a large deposit. • The unsourced $2,500 must be subtracted from the account balance of $20,000 and only the remaining $17,500 may be used for the underwriting purposes. **LPA** In addition to the requirements listed above, when a VOD is used for purchase transactions, the lender must include documentation of the source of funds when an account is opened within 90 days of verification and/or when the current balance in an account exceeds the average balance by more than 50% of the sum of: • The total monthly qualifying income for the mortgage, and • The amount derived from the asset calculation for establishing the debt payment-to-income ratio in accordance with Freddie Mac Asset Qualification Sources, if applicable. For example, if the current balance reflected on the borrower's verification of deposit (VOD) form is $15,000 and the average balance is $12,000, the source of the $3,000 increase must be verified if the borrower's total monthly qualifying income is less than $6,000. **NOTE:** if the source of a large deposit is readily identifiable on the account statement(s), such as direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the underwriter does not need to obtain further documentation. However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed; the underwriter should obtain additional documentation.
Borrower Minimum Contribution / Gift Funds	**DU** • No Minimum borrower investment from borrower's own funds is required if: ○ 1 Unit Primary Residence regardless of LTV/CLTV/HCLTV or ○ 2 - 4 Unit Primary Residence / Second Home ≤ 80%. • LTV/CLTV/HCLTV >80%: 2 - 4 Unit Primary Residence and Second Homes require 5% from borrower's own funds. **LPA** • No minimum borrower investment from borrower's own funds required if: ○ 1 Unit Primary Residence regardless of LTV/CLTV/HCLTV • Second home >80% LTV: Minimum 5% from borrower's own funds • Verification of sufficient funds to qualify for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves) are not required when the transaction is a refinance, and funds required to be paid by the borrower are $500 or less, and no reserves are required for the transaction by LPA. • Prorated real estate tax credits contributed by the property seller in areas where real estate taxes are paid in arrears may not be considered when determining the funds required for the mortgage transaction. **Notes** • Refer to Non Occupant Co-Borrower Section for down payment requirements. • Investment Property 80.01-85% LTV – Refer to Mortgage Insurance Section for requirements. **Gift funds** • After the minimum borrower contribution is met, gifts can be used.

Borrower Minimum Contribution / Gift Funds (cont.)

- A gift can be provided by a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.
- **LPA:** In addition to the eligible donors listed above, gift funds or a gift of equity from a trust established by a related person or the estate of a related person is also eligible.
- **DU:** When the gift is sourced by a trust established by an acceptable donor or an estate of an acceptable donor, the gift letter must be signed by the donor and list the name of the trust or the estate account. The lender must verify that sufficient funds to cover the gift are either in the donor's account (such as a checking, savings or investment account, or trust or estate account owned by the donor) or have been transferred to the borrower's account.
- The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
    - Note: For DU, gift funds from the seller who is also an acceptable donor as noted above, and not affiliated with any other interested party to the transaction are allowed. The donor of a gift of equity is not considered an interested party to the transaction.
- Not permitted on Investment Properties
- Gift of equity is acceptable for primary residence or second homes only after the required minimum down payment has been made from the borrower's own funds. The seller must be someone with whom the borrower has an established relationship with. The gift must be reflected as a credit on the ALTA Settlement Statement labeled "Gift of Equity", and a fully completed, fully executed gift letter must be provided.
- **LPA:** A gift donor may pay the borrower's earnest money deposit (EMD) directly to the builder or real estate agent if evidence of the transfer of funds from the donor's account in a financial institution to the earnest money deposit holder is provided. All other gift funds requirements still apply.
    - **Note:** If the source of the EMD is gift, enter the EMD amount as gift funds in LPA, and not as EMD.

Reserve Requirements Based on PITIA

	DU (including High Balance)
Subject Property	**Required Reserves**
Primary Residence	Follow DU findings

Note: When the borrower owns multiple financed properties, DU is unable to determine the reserve requirements for the transaction. In these instances, a manual calculation will be required. To calculate, add the amount of the Total funds to be verified (as specified on the DU underwriting findings report) to the minimum reserve requirements specified below. The total amount of assets to be verified must be reflected in the asset section of the loan application.

Calculation of Reserves for Multiple Financed Properties

If the borrower owns other financed properties, additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserve amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgage and HELOC's on these other financed properties. The percentage is based on the number of financed properties.

- 2% of the aggregate UPB if the borrower has 1-4 financed property (including principal residence)
- 4% of the aggregate UPB if the borrower has 5-6 financed properties (including principal residence)
- 6% of the aggregate UPB if the borrower has 7-10 financed properties (including principal residence)

The aggregate UPB calculation does not include the mortgages and HELOCs that are on:

- The subject property
- The borrower's principal residence
- Properties that are sold or pending sale
- Accounts that will be paid by closing (or omitted in DU on the online application)

Simultaneous Second Home or Investment Property Transaction

If a lender is processing multiple second home or investment property applications simultaneously the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications.

Example 1: Three Financed Properties				
DU (including High Balance)				
Occupancy	**Outstanding UPB**	**Monthly PITIA**	**Reserve Calculation**	
Subject – 2nd home	$78,750.00	$776.00	2 Months PITIA	$1,552.00
Principal Residence	$0	$179.00	N/A	N/A
Investment Property	$87,550.00	$787.00	$230,050 x 2%=	$4,601.00
Investment Property	$142,500.00	$905.00		

Reserve Requirements Based on PITIA (cont.)

	$230,050.00	N/A	**Total =**	**$6,153.00**

Example 2: Six Financed Properties

DU (including High Balance)

Occupancy	Outstanding UPB	Monthly PITIA	Reserve Calculation	
Subject - Investment	$78,750.00	$776.00	6 Months PITIA	$4,656.00
Principal Residence	($133,000.00)	$946.00	N/A	N/A
Investment Property	$87,550.00	$787.00	$345,030 x 4% =	$13,801.00
Investment Property	$142,500.00	$905.00		
Investment Property	$84,950.00	722.00		
Investment Property	$30,030.00	$412.00		
	$345,030.00		**Total =**	$18,457.00

Example 3: Eight Financed Properties

DU (including High Balance)

Occupancy	Outstanding UPB	Monthly PITIA	Reserve Calculation	
Subject - Investment	$78,750.00	$776.00	6 Months PITIA	$4,656.00
Principal Residence	($133,000.00)	$946.00	N/A	N/A
Investment Property	$87,550.00	$787.00	$629,530 x 6% =	$37,772.00
Investment Property	$142,500.00	$905.00		
Investment Property	$84,950.00	722.00		
Investment Property	$30,030.00	$412.00		
Second Home	$124,500.00	$837.00		
Investment Property	$160,000.00	$1,283.00		
	$3629,530.00		**Total =**	**$42,427.00**

LPA (including Super Conforming) - Minimum Required Reserves

LPA Approved loans – Follow LPA Findings

Documentation of funds to close on refinance transactions are not required under the following circumstances:

- Required borrower funds are $500 or less, and
- No reserves are required in accordance with LPA Feedback Certificate, and
- The mortgage is a Loan Product Advisor Mortgage with a Risk Class of Accept.

LPA Mortgages secured by second homes and investment properties required the following additional reserves:

Number of Financed Properties	Additional Required Reserves for Second Home or Investment Property Mortgages
When each borrower individually, and all borrowers collectively, are obligated on **1 - 6** financed properties, including the subject property and the borrower's primary residence	Two months of the monthly payment amount on each additional second home and/or 1-4 unit Investment Property that is financed and on which the borrower is obligated.
When each borrower individually, and all borrowers collectively, are obligated on **7 - 10** financed properties, including the subject property and the borrower's primary residence	Eight months of the monthly payment amount on each additional second home and/or 1-4 unit Investment Property that is financed and on which the borrower is obligated.

Note: For LPA, the additional required reserves stated in the chart above are included in the amount of reserves required to be verified on the Feedback Certificate.

Reserve Requirements (Definition of PITIA)

- Principal and interest
- Hazard, flood, and mortgage insurance premiums (as applicable)
- Real estate taxes
- Ground rents
- Special assessments
- Owners' association dues (excluding individual unit utility charges)
- Monthly cooperative corporation fees (less the pro rata share of the master utility charges for servicing individual units attributable to the borrower's unit), and
- Subordinate finance payments on mortgages secured by the subject property.

Subordinate Financing (including DPA)

Allowed. Up to maximum CLTV of 105%. Must comply with the terms for the Community Seconds option.

- All down payment assistance programs must be approved through Product Development.
- All approved programs – Product Development must review and approve the Note and Deed of Trust prior to funding to ensure correct documents were utilized.
- A Homebuyer Education Completion Certificate must be included in the file.

Seller Contributions (Limit is based on TLTV ratio)

Occupancy Type and TLTV	Maximum
Primary Residence and Second Homes	
TLTV < =75%	**9%**
TLTV 75.01% - 90.00%	**6%**
TLTV > = 90.01	**3%**
All Investment Properties	**2%**

High Balance	Maximum
Primary Residence and Second Homes	**3%**
Investment Properties	**2%**
Super Conforming	**3%**

Sales Concessions / Interested Party Contributions (IPC)

IPCs are either financing concessions or sales concessions. Fannie Mae considers the following to be IPCs:

- Funds that are paid directly from the interested party to the borrower.
- Funds that flow from an interested party through a third-party organization, including nonprofit entities, to the borrower.
- Funds that flow to the transaction on the borrower's behalf from an interested party, including a third-party organization or nonprofit agency; and
- Funds that are donated to a third party, which then provides the money to pay some or all of the closing costs for a specific transaction.

Notes

- A lender credit derived from premium pricing is not considered an IPC even if the lender is an interested party to the transaction.
- IPCs are not allowed to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

LPA

- Funds paid by the property seller that are fees or costs customarily paid by the property seller according to local convention are not subject to the maximum financing concession limitations above.
- In areas where real estate taxes are paid in arrears, prorated real estate tax credits contributed by the property seller are not considered interested party contributions and are not subject to the financing concessions limits stated above.

Property

Accessory Units

- Refer to agency specific guidelines for requirements.

Appraisal Requirements

A full interior/exterior appraisal report is required. Acceptable appraisal reports (based on property type) include:

- Uniform Residential Appraisal Report (Form 1004)
- Individual Condominium Unit Appraisal Report (Form 1073)
- Manufactured Home Appraisal Report (form 1004C)
- Small Residential Income Property Appraisal Report (Form 1025)

Appraisal Transfers

Residential Bancorp may permit the transferring of a Conventional appraisal subject to the below requirements:

- Must meet Fannie / Freddie Appraiser Independent Requirements (AIR)
- Transferring lender must provide a signed transfer letter
- Original appraisal with color photos in PDF format
- Original appraisal XML format
- Branch must run SSR for both Fannie and Freddie with successful submission
- Copy of the appraisal invoice showing appraiser has been paid in full
- Transferring lender to provide proof the appraisal was delivered to the borrower. Branch to re deliver and provide proof of delivery via read receipt on email to borrower.
- Client on appraisal to remain as original client. Appraiser cannot amend to Residential Bancorp
- Confirm that neither the appraiser or the AMC are named on most recent Agency or other Exclusionary List/
- Appraisal must comply with Uniform Appraisal Dataset (UAD) requirements.

Desk Review

- Only required upon request of Underwriter.

Age Restricted Properties

- Appraiser to address marketability and impact on value for any resale restrictions
- Must have comps with similar restrictions

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<td>Appraisal Requirements (cont.)</td>
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Super Conforming (LPA)

Condo appraisals must contain two comps from projects outside the subject’s project in addition to standard comparable sale requirements.

Agricultural Use of Subject Property – Allowed subject to the following:

Property use must be primarily residential in nature,
Appraisal must reflect Single Family Residential as the highest and best use,
Farm income from subject must not be a significant source of income – max. 10% of total income, and
Farm income from subject property may not be used to qualify.

Multiple Parcels with single APN (considered same as single parcel):

Parcels must be contiguous (adjoining)

May be separated by a road provided the second parcel is not buildable
Evidence that the second parcel is non-buildable is required
Ex. Waterfront properties where the parcel without the residence provides access to the water.

Each parcel must be conveyed in its entirety

Subject transaction Deed must contain a complete legal description of all parcels/lots and must specifically reference and describe each lot or parcel in its entirety
Subject transaction Mortgage must encumber all improvements and all parcels/lots

Multiple Parcels with multiple APNs:

Parcels must be contiguous (adjoining)

May be separated by a road provided the second parcel is not buildable
Evidence that the second parcel is non-buildable is required
Ex. Waterfront properties where the parcel without the residence provides access to the water.

Entire property may contain only one dwelling unit

Limited non-residential improvements (i.e., garage) acceptable
Improvement(s) built across lot lines is acceptable (ex. home built across both parcels with lot line running beneath the home)

Each parcel must have the same basic zoning (i.e., residential)
Each parcel must be conveyed in its entirety

Subject transaction Deed must contain a complete legal description of all parcels/lots and must specifically reference and describe each lot or parcel in its entirety
Subject transaction Mortgage must encumber all improvements and all parcels/lots

Note: If subject transaction is New Construction refer to Owner of Record in the Title Section of these guidelines.
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<td>Appraisal Waivers</td>
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<tr><th colspan="2">DU Appraisal Waivers (formally known as property inspection waiver)</th></tr>
<tr><td colspan="2">An appraisal waiver may be received in your DU findings. When this occurs, the borrower has an option to move forward and complete the transaction without obtaining an appraisal on the property provided the following requirements are met:</td></tr>
<tr><th>Eligible Transactions</th><th>Ineligible Transactions</th></tr>
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Refinance: Provide evidence the property is not currently listed for sale.
DU Approve Eligible only
Fixed Rate (Conforming and High Balance)
One-unit properties, including condos
Primary Residence and Second Home transactions
Investment Property refinance transactions
Purchase transactions

Primary Residences and Second Home
Max 80% LTV/CLTV

Rate and Term Refinance

Primary Residence and Second Home
Max 90% LTV/CLTV
Investment Property
Max 75% LTV/CLTV

Cash-Out Refinance

Primary Residence
Max 70% LTV/CLTV
Second Home and Investment Property
Max 60% LTV/CLTV

At time of underwriting the underwriter will validate that the DU findings allow for PIW and will confirm LOS has been marked properly for no appraisal.
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Construction and Construction to permanent loans;
2-4 Unit properties;
HomeStyle Renovation and HomeStyle Energy mortgage loans;
Leasehold properties;
Community Land Trusts or other properties with resale restrictions, which include loan casefiles using the Affordable LTV feature;
Co-op units and manufactured Homes (including MH Advantage properties);
DU loan casefiles that receive an Ineligible recommendation;
Transactions using gifts of equity;
Transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more;
Texas 50(a)(6) loans (cash-out and limited cash-out refinance transactions);
Rental income from the subject property is used to qualify the borrower;
Properties listed in active disaster area

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Appraisal Waivers (cont.)

Exercising an Appraisal Waiver A lender may only exercise an appraisal waiver if: • The final submission of the loan casefile to DU resulted in an appraisal waiver offer, • An appraisal is not obtained for the transaction, and • The appraisal waiver offer is not more than four months old on the date of the note and the mortgage. • Must include SFC 801 at delivery.	**Note:** DU may offer an appraisal waiver on a recently constructed property (i.e., new construction) when there is an existing "as is" prior appraisal for the subject property. For example, an appraisal of the subject property may have been performed for a different lender or borrower, but that loan did not close. The lender may execute the appraisal waiver offer when the loan meets all other eligibility criteria for the transaction. **Note:** The lender may not exercise an appraisal waiver offer if an appraisal is obtained for the transaction. **Properties with a recent appraisal** DU will not offer an appraisal waiver when an appraisal has been uploaded to the Uniform Collateral Data Portal (UCDP) within the prior 120 days from any lender.

LPA Automated Collateral Evaluation (ACE)

For certain Loan Product Advisor Mortgage, the automated collateral evaluation provides the Lender with the option to accept an appraisal waiver and originate the Mortgage without an appraisal provided the following requirements are met:

Eligible Transactions	Ineligible Transactions
• LPA Accept • One-Unit properties, including condominiums • Primary Residence or Second Home • Purchase Transactions ○ Primary Residence and Second Home ▪ Max 80% LTV/TLTV • Rate and Term Refinance ○ Primary Residence and Second Home ▪ Max 90% LTV/TLTV • Cash- Out Refinance ○ Primary Residence – Max 70% LTV/TLTV ○ Second Home – Max 60% LTV/TLTV • Upon evaluation by Loan Product Advisor, the last feedback certificate must indicate that the mortgage is eligible for collateral representation and warranty relief with an appraisal waiver (this represents the "offer"); and • The final submission of the mortgage to the Selling System must indicate that collateral representation and warranty relief status is "Y" or "Yes" • Underwriting to validate the validity of appraisal waiver at approval, and clear to close	• Manufactured Homes • Leasehold properties • Mortgages for which an appraisal has been obtained in connection with the mortgage • Properties subject to resale restrictions • Construction to Perm • Renovation Mortgages • Mortgage with Freddie Mac Settlement Dates more than 120 days from the Note Date • Non-arm's length transactions • Purchases of REO properties (as identified in the sales contract) • Mortgage with an estimate of value or purchase price greater than $1,000,000 • Properties listed in active disaster areas • A contaminated site or hazardous substance exists affecting the property or the neighborhood in which the property is located • Adverse physical property conditions that are apparent based on the review of the sales contract, property inspection, disclosure from the borrower or seller • Texas 50(a)(6) refinance loans (cash-out and limited cash-out refinance transactions)

Community Transfer Fee

- Refer to [Community Enhancement Transfer Fee Job Aid]()

Escrow Holdbacks

When the property securing the mortgage is new or proposed construction, the appraisal may be based on either plans and specification or an existing model home. The table below describes requirements related to properties that are new or proposed construction that are not complete when the mortgage is delivered to Fannie Mae.

	DU Requirements for New or Proposed Construction
	Mortgages may be delivered before postponed items are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that: • are part of the sales contract (third-party contracts are not permissible); • are postponed for a valid reason, such as inclement weather or a shortage of building materials; and • do not affect the ability to obtain an occupancy permit.

Escrow Holdbacks (cont.)	A certification of completion must be obtained to verify the work was completed and must: • be completed by the appraiser, • state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and • be accompanied by photographs of the completed improvements. The cost of completing improvements must not represent more than 10% of the "as completed" appraised value of the property. Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price. Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed. The completion escrow may not adversely affect the mortgage insurance or title insurance. Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items. • Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien.
Fannie Mae Owned Properties	A property that was owned and sold by Fannie Mae is called a HomePath property. When the property secured by a mortgage is a Fannie Mae owned property (i.e., HomePath), Fannie Mae will allow certain exceptions to standard eligibility policies as described below: • Maximum interest party contribution for principal residences > 90% is 6%. All other requirements related to IPCs as described in standard guidelines apply. ○ Note: DU is not able to determine if the subject property is a sale of a HomePath property. DU will issue a message if the amount of the IPC appears to exceed the standard limits. The lender must determine whether the subject transaction is a purchase of a Fannie Mae owned property eligible for the higher IPC limit and document the loan file accordingly. • Notwithstanding any other provisions of Fannie Mae, loans subject to resale restrictions imposed by Fannie Mae as the seller of its REO property are eligible. • Must use SFC 679 when delivering a loan secured by a HomePath property if the IPC exception applies to the transaction. Note: Only the exceptions noted in this section are eligible for Fannie Mae Owned Properties. All other standard Conforming Guidelines will still apply.
Private Roads	For requirements on private roads, refer to applicable first lien guidelines: • Fannie Mae • Freddie Mac – Refer to Section 5605.4(a)(iv) and 4702.4(e)
Property Tax Calculators	For purchase transactions, use the following property tax calculators: • https://smartasset.com/taxes/property-taxes • http://www.tax-rates.org/property-tax-calculator
Property Types	**Eligible** • 1 – 4 units • Condos – Fannie Mae or Freddie Mac warrantable projects ○ DU= Limited review is allowed on investment property when LTV/CLTV/HCLTV is 75% or less ▪ (LP = Limited review is allowed on investment property when LTV/TLTV/HTLTV is 75% or less (Projects located in Florida, max 70% LTV). ○ DU and LPA = Limited review is allowed on primary residences when the LTV/CLTV/HCLTV is 90% or less (Projects located in Florida, max 75% LTV), or second homes when the LTV/CLTV/HCLTV is 75% or less (Projects located in Florida, max 70% LTV). For all other occupancy types and LTV/CLTV/HCLTV's, project approval is required. ▪ DU = For Fannie Mae to Fannie Mae Limited Cash-out Refinances, project eligibility review may be waived provided the following is met: • The LTV is ≤ 80% (CLTV/HCLTV ratios may be higher); • The project has the required project-related property and flood insurance coverage; and • The project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project.

Property Types (cont.)	• The loan must be delivered with Project Type “V” and any applicable SFCs that apply. o Detached Condo = Limited review allowed per AUS findings. Property must be run as Detached Condo in property type. o FHA Project Review = Units in established condo projects approved by FHA’s HUD Review and Approval Process (HRAP) are acceptable. (New or newly converted condo projects and DELRAP are not acceptable.) • PUDs – Fannie Mae or Freddie Mac warrantable projects • Leasehold Estates - Contact Underwriting • Manufactured homes • Agricultural Use of Subject Property – Refer to Appraisal Section for eligibility requirements **Ineligible** • Properties in C-5 or C-6 condition • Co-ops • Working Farms • Condotel • 2-4 Unit PUD **Super Conforming Products**
Solar / Energy Improvements	• Refer to Solar Energy Improvement Job Aid Fannie Mae / Freddie Mac
Termite Reports	• Termite reports and clearances are required when the appraiser notes termite damage and suggests or requires an inspection as “subject to” or purchase agreement refers to possible termite damage. **Note:** Underwriting will not condition for the termite report merely because it is reflected in the purchase contract by checking the inspection box. Underwriting will condition for the termite report if the contract reflects it being a part of the agreement between the buyer and seller, that the seller pays for all “Section 1” items, or that the property is being transferred free of any active infestation.
Title	Owner of Record • The seller, per the purchase contract, must be the owner of record prior to closing. Concurrent transfer at closing is permitted (i.e., if transaction is New Construction, the owner of record may be the Developer and the Builder may be the seller per the purchase contract, subject to evidence of transfer (prior to funding) from the Developer to the Builder before the transfer from Builder to borrower. • Multiple transfers of the subject property within the prior 12 months must still be addressed properly by ensuring the appraisal confirms increases in value are supported by improvements and/or below market acquisition.
Unpermitted Additions	• Refer to agency guidelines

DU / LPA Validation Services

General Information

The DU/LPA validation service offers lenders an opportunity to deliver loans with more certainty. Certain components of the loan file – income, employment, and assets – are eligible for validation by DU/LPA using electronic verification reports obtained from vendors. When a component of the loan is validated by DU/LPA, the loan may be eligible for representation and warranty enforcement relief related to the component. The validation service is only for conventional loans underwritten through DU and LPA.

For loans assessed by the validation service, the lender must:

- Obtain borrower authorization to receive the information from the vendor;
- Confirm that the verification report matches the borrower;
- Ensure information entered by the lender is properly documented;
- Investigate and resolve any conflicting or contradictory information;
- Retain a copy of all verification reports in the loan filed, in addition to any other documentation required by DU/LPA; and
- Ensure that the most current version of the verification report is used by the validation service. If the lender obtains an updated verification report, the lender must resubmit the loan to DU/LPA and receive a message that the components have been validated in order for the representation and warranty enforcement relief to apply.

Validation Results

- *Validated (DU) / Eligible (LPA)*
    - DU/LPA has determined that the information provided on the verification report supports the information entered into DU/LPA for the component being validated.
    - DU/LPA message(s) will indicate that the verification report is acceptable documentation to support the components that has been validated.
- *Not Validated (DU) / Not Eligible (LPA)*
    - DU/LPA has determined that the information provided on the verification report does not fully support the information entered into DU/LPA for the component of the loan file eligible for validation.
        - The DU/LPA message(s) will indicate what documentation, in addition to the verification report, is required.
- *Unable to Validate (DU) / Unavailable (LPA)*
    - DU/LPA is unable to validate the information entered into DU/LPA for the component eligible for validation. This could be due to DU/LPA's inability to access the verification report data, or insufficient data in the report.
    - DU/LPA message(s) will indicate what documentation is required.
      Note: Regardless of the validation result, DU/LPA will continue to use the information provided by the lender in determining the DU/LPA underwriting recommendation. The results of the validation service do not override, impact, or alter any information submitted by the lender.

Age of Income Documentation Requirements

Employment and Income Verification Reports

The date of the report must comply with Fannie Mae / Freddie Mac's standard age of credit document requirements.

Tax Return Transcripts

In order to ensure that the income validation is completed using the most recent tax transcripts, the following will be used to determine if the transcript contains the most recent tax return information. Lenders are not required to comply with the standard age of credit document requirements when DU issues the message that income has been validated.

- For loan casefiles created on or before April 30, the most recent tax transcript must be provided. The most recent tax transcript would be for the prior year (current year minus 1). If the prior tax return has not yet been filed or the transcript is not yet available, the most recent tax transcript will be the current year minus 2.
- For loan case files created after April 30, the most recent year tax transcripts must be provided for validation to be completed. The most recent tax transcript will be for the prior year (current year minus 1).

Asset Validation

The following table lists the asset types that can be validated and the documentation that DU/LPA will require, which may be different than the standard documentation required.

Eligible Asset Types	Eligible Verification Report
Checking/Savings	Asset Verification Report **Note:** Additional documentation may be required depending on the type of asset account and the assessment conducted by DU/LPA for validation purposes.
Certificat of Deposit (CD)	
Stocks	
Money Market	
Mutual Funds	
Retirement	

Asset – Additional Information

The following additional inforamtion applies to asset validation

Asset Validation (cont.)

- The account statement obtained form the vendor must cover the most recent:
  - 30 days of the account activity for refinance transactions
  - 60 days of account activity for purchase transactions
  - The most recent quarter, if account infomration is reported on a quarterly basis
- The lender must review the verificaion report, and investigage and resolve any conficiting or contradictory information. The lender must also confirm that the borrower is listed as an account holder for each asset account.
- The DU validation service automates the assessment of large eposits on purchase transactions. When a large deposit needs to be documented, DU will issue a message specifying the amount of the large deposit, as well as the institution name and account number of the account that includes the lartge deposit. If no message is issued by Du, then no documentation of any large deposit appearing on the asset report is required when assets have been validated.
- If the actual amount of funds required to complete the transaction is greater than the funds required to close specified in the DU/LPA, the lender must document liquid assets to cover the additional amount.
- For self-employed borrowers, if an eligible asset account is reflected as a business account on the verification report, the lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impct on the business. If the lender determines the withdrawal would have a negative impact on the business, the lender must remove the assets form the online loan application, obtain an updated verification report that excludes the business account, and resubmit the loan to DU/LPA.
- When retirement assets are entered in DU/LPA, the lender is required to ensure that withdrawals are permitted, and that withdrawals are note limited to those completed in connection with borrower's employment, terminattion, retirement, or death. If any of these conditions are present, the lender must remove the retirement account assets from the online loan application, obtain an updated verification report that excludes the retirement account, and resubmit the loan to DU/LPA.

Ineligible Transactions

- Gift funds
- Cash on hand
- Assets that will be used by the borrower for reparyment of borrower's monthly obligation

Employment Validation

The following table describes the employment that can be validated and the documentation that will be required, which may be different than the standard documentation required.

Note: Military employment is not eligible for employment validation by DU/LPA

Eligible Employment	Eligible Verificstion Report
Employment related to the following income types: • Base • Bonus • Overtime • Commission Income	Employment and Income Verification Report or Employment Verification Report

Employment – Additional Information

The following additional information applies to employment validated by DU:

- The vendor must obtain employment information using data obtained form the report supplier's existing database of employer-provided information.
- Income and employent are assessed independatntly; however, the results of the employment validation may impact income validation (for example, if employment is not able to be validated, the associated income wil lnot be validated).
- DU: When employment is validated by DU, the validationn satisfies the requirement for verbal verification of employkent, Lenders must comply with all DU messages, including ensuringthe loan closes by the "Close By Date" stated in the DU employment validation message.
  - **Note:** For LPA, when the employment is validated by LPA, the lneder must still obtain and maintain in the mortgage file verification of the borrower's urrent employment (10-day pre-closing verification).
  - The lender must review the verification report, including any Employer Disclaimer informatinm and investigage and resolve any conflicting or contradictory information.

Income Validation

The following table lists the income types that can be validated, and the documentation that DU/LPA will require, which may be different than the standard documentation required.

Note: Military income is not eligible for income validation by DU/LPA.

Eligible Income Types for Validation	Eligible Verification Report
Base	Employment and Income Verification Report
Bonus	
Overtime	

Income Validation (cont.)

Commission	
Retirement (annuities and pension)	Tax Return Transcript (Taxpayer Tax Return Summary Report) **Note:** Additional documentation may be required depending on the type of retirement income.
Social Security (retirement, disability, supplemental, survivor benefits)	Tax Return Transcript (Taxpayer Tax Return Summary Report) **Note:** Additional documentation may be required depending on the type of retirement income.
Self-Employed (IRS Form 1040 Schedule C or C-EZ for sole proprietorships only)	Tax Return Transcript (Taxpayer Tax Return Summary Report)

Income – Additional Information

The following additional information applies to income validation by DU/LPA:

- The Vendor must obtain income information using data obtained from the report supplier's existing database of employer-provided information.
- When DU validated income, the lender is not required to determine if the borrower is employed by a family member or interested parties to the property sale or purchase.
    - **Note: For LPA**, earning with the following employment characteristics are not eligible for automated income assessment:
        - Earnings of a borrower employed by a family member, the property seller, real estate broker or other interested party to the transaction
        - Employed income from foreign sources
        - Income reported on IRS Form 1099
- When DU/LPA validates income, the lender must continue to obtain employment verification. The verification report may contain sufficient information to satisfy the requirement. See Employment – Additional Information above.
- The lender must review the verification report and investigate and resolve any conflicting or contradictory information.

Note: For LPA, in the event the borrower has taken a temporary leave of absence from his/her employment, the income verification report must indicate that, as of the date of the verification report, the borrower has returned to work for at least 30 days following the leave.

Income Validation Using Tax Returns

Eligible self-employed income sources (LPA)

The following income sources are eligible for automated assessment of self-employed income using tax return data:

- Sole proprietorships reported on IRS Schedule C
- S Corporations reported on IRS Form 1120S (including compensation of officers reported on IRS Form W-2), IRS Form 8825 and IRS Schedule K-1 (Form 1120S)
- Partnerships reported on IRS Form 1065, IRS Form 8825 and IRS Schedule K-1 (Form 1065)