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**LOAN PURPOSE**

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1. Loan Purpose

The purpose of a loan is an important tool in determining lending limits and risk. The purpose of a loan has an effect on pricing, loan documentation, regulatory requirements, and underwriting/credit risk.

1.1. Purchase

A purchase money transaction is a transaction in which the proceeds are used to finance the purchase of a property. The loan-to-value (LTV) is determined by using the lower of the sales price or appraised value of the property. A copy of the fully executed purchase contract and all attachments or addendums is required for all purchase transactions. Any changes and/or alterations to the purchase contract must be initialed by all parties involved in the transaction.

The borrower cannot receive any monies back from the transaction unless the cash back is for overpayment or reimbursement of borrower's fees, or reimbursement of costs paid for by the borrower in advance. Proof of the payment(s) from the borrower is required to provide evidence that the fees were paid.

Loans for which a borrower is not a vested party on the title report prior to the submission of the loan will generally be handled as a purchase transaction.

1.1.1. Rent Credit for Option to Purchase

Rent credit for option to purchase is an acceptable source of funds toward the down payment or minimum borrower contribution. Borrowers are not required to make a minimum borrower contribution from their own funds in order for the rental payments to be credited toward the down payment.

Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

Documentation Requirements

The lender must obtain the following documentation:

- A copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and specifying the terms of the lease.
- Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
- Market rent as determined by the subject property appraisal.

**LOAN PURPOSE**

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1.1.2. Kiddie Condo

When a parent is purchasing a home for a child that is attending college and has no usable income, the transaction will be treated as an "owner occupied" purchase transaction. The child is required to go on the loan as the owner occupant, with the parents as non-occupying co borrowers, providing the income and assets for qualifying. File needs to contain documentation showing the child is currently enrolled and attending college.

1.1.3. Mortgaged Premises Occupied by Borrower's Parent or Disabled Child

Borrower may be considered an occupying Borrower if the Mortgaged Premises is occupied as a Primary Residence by an individual(s) who:

- Is the Borrower's parent(s), or
 - Borrower is the disabled individual's parent or legal guardian (parents).
- For Loan Product Advisor submissions, in the "Declarations" section, select "Yes" for the question, "Does the borrower intend to occupy the property as his/her primary residence?"

1.2. Refinance

A refinance transaction replaces an existing loan(s) with a new loan to current owners, or places financing on a property currently owned by the borrower where no financing exists. At least one of the borrowers must have a vested ownership interest in the subject property offered as security for the new loan. Refinance transactions are defined as either a limited cash-out (rate/term) or cash-out.

1.2.1. Rate/Term

Rate/term refinance transactions are paying off an existing lien or liens.

Loan Prospector (LP) decisioned transactions only: if the current mortgage being refinanced was previously a purchase money transaction, the Note date of the current mortgage must be at 120 days prior to the subject refinance transaction Note date. The 120-day seasoning requirement does not apply to rate/term refinance transactions decisioned and approved by DU. If the property has been owned less than 12 months and the appraisal reflects a substantial increase in value from the original purchase price, the appraiser should ensure the increase in value is valid.

The mortgage amount is limited to sufficient funds required to accomplish the following:

- Payoff the unpaid principal balance of the existing first lien mortgage, including any prepayment penalty.
- Payoff the unpaid principal balance of any existing subordinate mortgage that was used to purchase the subject property, including any prepayment penalty. A copy of the final HUD-1 executed by buyer and seller from the previous transaction may be required. If any subordinate lien that was not



LOAN PURPOSE

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used to acquire the subject property is to be paid off with first mortgage proceeds, the loan is ineligible as a rate/term refinance. The loan must be re submitted as a cash-out refinance.

Note: If the existing subordinate financing used to purchase the property is a revolving line of credit (HELOC), and draws were made after the purchase, the line of credit cannot be considered in the Rate/Term refinance.

- Pay closing costs (including prepaid expenses).
- Incidental cash back to the borrower:
 - DU = Not to exceed the lesser of \$2,000 or 2% of the principal balance of the new loan amount.
 - LPA = Greater of 1% of the mortgage amount or \$2,000
- See [Property Listed for Sale](#) section.
- Paying any property taxes delinquent 60 days or more will result in the transaction being a cash out refinance.
- Paying off a mortgage on any property that has been cross collateralized will result in the transaction being a cash out refinance.
- Small Business Administration (SBA) loans secured by the subject property must be treated as subordinate financing and included in the calculation of the CLTV and HCLTV ratios. Monthly payments must be included in DTI.

Fannie Mae ONLY

- The transaction is being used to obtain a new first mortgage loan secured by the same property to:
- Pay off an existing first mortgage loan (including an existing HELOC in first-lien position); or
- For two-closing construction-to-permanent loans, to pay off an existing construction loan and documented construction costs overruns that were incurred outside of the interim construction financing. (These construction cost overruns must be paid directly to the builder at closing); or
- For single closing construction-to-permanent loans, to pay for construction costs to build the home, which may include paying off an existing lot lien.

Freddie Mac ONLY

A rate/term (no cash out) refinance may be used to "pay down" any junior liens that are secured by the subject property and were used in their entirety to acquire the subject property.

1.2.1.1. Student Loans

Fannie Mae's Rate and Term Refinance may include the pay-off of a student loan.

Eligibility

- At least one student loan must be paid off. Loan proceeds must be paid directly to the student loan servicer at closing.



LOAN PURPOSE

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- Only student loans for which the borrower is personally obligated can be paid through transaction. This would include co-signor loans.
- Student loan debt must be paid in full with the proceeds – partial payments of student loan debt are not permitted. Eligibility.
- Standard Cash-Out refinance LTV, CLTV, and HCLTV ratios apply.

Underwriting Method

- DU Only. Needs to be run as a cash-out refinance.

Special Feature Codes

- SFC 841

Maximum Cash Back

- Lesser of 2% or \$2,000.00 (over and above the student loan payoff)

Existing Mortgage Payoff

- 1st Mortgage and purchase money 2nd's Other Requirements
- Property cannot be listed for sale at time of disbursement.
- Payoff of taxes ineligible unless escrow account is established.
- Payoff of delinquent taxes ineligible.

1.2.2. Cash-Out

A refinance is considered cash-out if it exceeds any of the limitations indicated for a rate/term refinance, or if it involves disbursement of loan proceeds to pay off or paydown unsecured or unseasoned debt.

The amount of cash disbursed in the form of paying off or paying down any unsecured or unseasoned debt plus cash to the borrower may not exceed the limits specified in the program details based on occupancy, CLTV, and documentation type.

There is a 6-month title-seasoning requirement for all cash-out refinance transactions. The following also applies to cash-out transactions:

- Borrower has to be on title, as an individual or trust, for 6 months prior to the note date in all cash-out refinance scenarios. Transfer of ownership from a corporation to an individual within the 6-month period prior to the note date of the new loan is not allowed.
- Time held in an LLC that is controlled or majority owned by the borrower(s) will be counted towards the borrower's six-month ownership requirement.
- The property must have been purchased by the borrower at least six months prior to the disbursement date of the new mortgage loan unless the Delayed Financing guidelines are met. See [Delayed Financing Exception guides](#).
- See [Property Listed for Sale](#) section.
- On cash-out refinance transactions, applicants may be required to supply a letter of explanation regarding the use of the cash-out proceeds.



LOAN PURPOSE

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- Valuation from a new appraisal may be used after the 6-month waiting period.
- Small Business Administration (SBA) loans secured by the subject property must be treated as subordinate financing and included in the calculation of the CLTV and HCLTV ratios. Monthly payments must be included in DTI. See the product matrix for the maximum allowable LTV/CLTV/HCLTV ratios and credit score requirements for cash-out refinances.

Ineligible Transactions

The following transaction types are not eligible as cash-out refinances:

- The mortgage is subject to a temporary interest rate buydown.
- The subject property was purchased by at least one borrower within the six months preceding the disbursement date of the new mortgage loan except if delayed financing guidelines are met.
- For certain transactions on properties that have a Property Assessed Clean Energy (PACE) loan, borrowers who refinance the first mortgage loan and have sufficient equity to pay off the PACE loan but choose not to do so will be ineligible for a cash-out refinance.
- Transactions classified as HomeStyle Energy loans. However, energy-related improvements are permitted.
- Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date the installment land contract was executed.
- The new loan amount includes the financing of real estate taxes that are more than 60 days delinquent, and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation. For example, if a particular state law does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible for sale to Fannie Mae without an escrow account.

The transaction is not eligible for delivery to Fannie Mae if the subject property is listed for sale at the time of disbursement of the new mortgage loan.

1.2.3. Property Listed for Sale

Properties that were listed for sale in the previous 6 months must have been taken off the market on or before the disbursement date of the new mortgage loan.

Note: This applies to both Rate and Term Refinances and Cash Out Refinances.

1.2.4. Refinance of Existing Modified Loan

Refer to [Short Refinance/Modification/Restructured Loan Section](#).

**LOAN PURPOSE**

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1.2.5. Minnesota Refinance Guidance**1.2.5.1 Minnesota Refinancing Restrictions**

A licensee may not arrange for a mortgage loan where all or a portion of the proceed are to pay off a “special mortgage” fully or partially unless the borrower has obtained a written certification from an authorized independent loan counselor.

“Special mortgage” means a mortgage loan originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization, which bears one or more of the following nonstandard payment terms which substantially benefit the borrower:

- Payments vary with income.
- Payments of principal or interest are not required or can be deferred under specific conditions.
- Principal or interest is forgivable under specified conditions; or
- No interest or an annual interest rate of 2% or less is charged in connection with the loan.

“Authorized independent loan counselor” means a nonprofit, third-party individual or organization providing homebuyer education programs, foreclosure prevention services, mortgage loan counseling, or credit counseling certified by HUD, the Minnesota Home Ownership Center, the Minnesota Mortgage Foreclosure Prevention Association, AARP or NeighborWorks America. Minn. Stat. Ann §58.13 (23)

1.2.5.2 Minnesota Well Disclosure

Before signing an agreement to sell or transfer real property, the seller must disclose in writing to the buyer information about the status and location of all known wells on the property, by delivering to the buyer either a statement by the seller that the seller does not know of any wells on the property, or a disclosure statement indicating the legal description and county, and a map drawn from available information showing the location of each well to the extent practicable. In the disclosure statement, the seller must indicate, for each well, whether the well is in use, not in use, or sealed.

At the time of closing of the sale, the disclosure statement information, name and mailing address of the buyer, and the quartile, section, township, and range in which each well is located must be provided on a well disclosure certificate signed by the seller, or a person authorized to act on behalf of the seller.

A well disclosure certificate does not need to be provided if the seller does not know of any wells on the property and the deed or other instrument of conveyance contains the statement: “The Seller certifies that the Seller does not know of any wells on the described real property.”

**LOAN PURPOSE**

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If a deed is given pursuant to a contract for deed, the well disclosure certificate required by this subdivision must be signed by the buyer or a person authorized to act on behalf of the buyer. If the buyer knows of no wells on the property, a well disclosure certificate is not required if the following statement appears on the deed followed by the signature of the grantee or, if there is more than 1 grantee, the signature of at least 1 of the grantees: "The Grantee certifies that the Grantee does not know of any wells on the described real property." The statement and signature of the grantee may be on the front or back of the deed or on an attached sheet and an acknowledgment of the statement by the grantee is not required for the deed to be recordable. Purchase only, excludes condo units. Minn. Stat. Ann. §103I.235(1) Website that contains additional information regarding Well Disclosure Certificates [Well Disclosure/Property Transfer - EH: Minnesota Department of Health \(state.mn.us\)](https://www.health.state.mn.us/eh/transfer)

1.2.6. Texas Refinance Guidance**1.2.6.1. Texas Eligible Mortgages**

A Texas Equity Section 50(a)(6) Mortgage must be conventional First Lien Mortgage that is a:

- Fixed Rate Mortgage
- A Single Unit Principal Residence

Borrower's homestead property may not exceed the applicable acreage limit as determined by Texas law when the Texas Section 50(a)(6) loan is originated. A borrower that owns adjacent land must submit appropriate evidence, such as a survey, that the mortgage homestead property is a separate parcel that does not exceed the permissible acreage.

1.2.6.2. Texas Appraisal Requirements

A full appraisal is required. PIW/AW are not allowed.

1.2.6.3. Texas Home Equity Refinance

A Texas Home Equity Section 50(a)(6) mortgage is a loan originated under the provisions of Article XVI of the Texas Constitution, which allows a Borrower to take equity out of a homestead property under certain conditions.

Texas Section 50(a)(4) conversion loan will allow the borrower the option of refinancing a previous Texas Section 50(a)(6) to a Texas Section 50(a)(4) rate and term refinance.

1.2.6.4. Texas Section 50(a)(4) Requirements

A Texas Home Equity Section 50(a)(6) home equity loan cannot be refinanced as a Texas non-home equity loan unless all of the following requirements are met:

- A Texas Section 50(a)(4) 12-Day Disclosure (Non-Home Equity 12-day Written Notice (Notice Concerning Refinance of Existing Home Equity



LOAN PURPOSE

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Loan to Non-Home Equity Loan) must be provided to the Borrower/Property Owner within three business days of application and at least twelve calendar days before the refinance is closed.

- Business day means any day other than Sunday or one of the 10 federal legal holidays.
- One copy of the required refinance disclosure may be provided to married Owners.
- Non-Home equity refinance may not exceed 80% LTV/CLTV
- Refinance may not close before the first anniversary of the date the home equity loan was closed
- New refinance must be closed as a Texas Section 50(a)(4) Non-Equity Refinance, closed end first lien and not subject to prepayment penalties
- No additional funds may be advanced other than funds advanced to pay off the current 50(a)(6) lien and closing costs.
- **Borrower may not receive Limited Cash Out rule of the lesser of 2% or \$2,000.00 at closing. Anything larger than \$100.00, a principal reduction will be required.**
- Section 50(a)(4) Conversion Loans will utilize the standard Texas Security Instrument.
- Once a loan becomes a non-50(a)(6) by meeting the provisions of a Section 50(a)(4) conversion Loan, there are no seasoning requirements.
- Attorney Review Requirements and Texas specific Fee Cap restrictions imposed on Section 50(a)(6) Loans are not required with Section 50(a)(4) loans.

If the Owner initially applies for a home equity loan and converts to a non-home equity loan at some point during the process, the application is considered submitted on the date the Owner modifies the application, either orally or in writing.

The originator may convert the application and send the Non-Home Equity 12-day Written Notice to start the three-day disclosure period, rather than cancelling the loan and starting over.

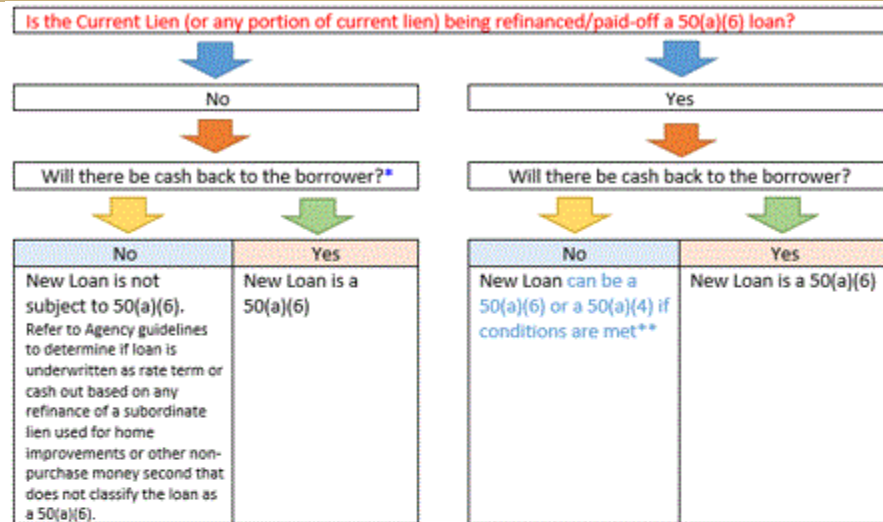
1.2.6.5. Texas Section 50(a)(6) and Section(a)(4) Comparison Summary

In summary, utilize the table below to determine if your subject transaction is a Texas Section 50(a)(6) or Texas Section 50(a)(4):



LOAN PURPOSE

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*Cash back to borrower includes any loan proceeds that are used to pay-off unsecured debt (such as credit cards, etc.), even if the borrower is bringing cash to close. To avoid being considered a 50(a)(6) loan, the refinance may only pay-off debt secured by the homestead subject property and associated costs necessary to refinance the homestead debt.

**To be eligible for a 50(a)(4) refinance:

- (a) Refinance may not close before the first anniversary of the date the extension of credit was closed (the existing 50(a)(6) loan must be seasoned for 12 months);
- (b) Refinance does not include the advance of any additional funds other than i) funds advanced to refinance a debt described by Subsections (a)(1) through (a)(7) of Section 50, Article XVI of the Texas Constitution, or ii) actual costs and reserves required by the lender to refinance the debt;
- (c) Refinance may not exceed 80 percent (LTV/CLTV) of the fair market value of the homestead on the date the refinance of the extension of credit is made; and
- (d) Must provide the 50(a)(4) disclosure within 3 business days after the date the owner submitted the loan application to the lender and at least 12 days before the extension of credit was closed.

Note: Texas definition of a Cash Out Refinance or Rate and Term Refinance may not be the same definition as Fannie Mae and Freddie Mac.

1.2.7. Ineligible Transactions

The following types of transactions are considered ineligible:

- Bailout transactions
- High-cost loans

1.3. Construction-to-Permanent Financing

Construction-to-permanent financing involves the granting of a long-term Single closing transactions are processed as purchases or limited (R/T) cash out refinances, and two closing transactions are processed as limited cash out or cash out refinances. Exceptions: mortgage loans secured by manufactured housing or units in a condo project are not eligible for construction to permanent financing. These transactions are subject to the applicable eligibility requirements based on the loan purpose.

**PROGRAM BASICS**

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2. Program Basics**2.1. Product Guidelines**[Conforming](#)[DU High Balance](#)[LP Super Conforming](#)**2.2. LTV/CLTV**[Conforming](#)[DU High Balance](#)[LP Super Conforming](#)**2.3. Escrow/Impound Rollover**

Allowed.

2.4. Exceptions to MWF Guidelines

Requests for exceptions to posted MWF Guidelines may be considered only if the loan file contains one or more supporting factors from the table below:

Note: This applies to exceptions relating to existing MWF guidelines ONLY and should accompany a Loan Exception Request Form.

Acceptable MWF Exception Request Supporting Factors
• Verified reserves of 3 Months for 1-2 Units, and 6 Months for 3-4 Units. *
• New housing payment (PITI) increase \leq 5% from previous total monthly housing payment. (No late payments in past 12 months).
• Borrower has a potential for increased earnings, as indicated by a VOE.
• Total DTI \leq 35%.
• Borrower carries no discretionary debt (can document that revolving credit has been paid off in full each month for at least the previous six months).
• LTV \leq 90% for FHA/VA/USDA or LTV \leq 75% for Conventional.
*The following are ineligible for reserves:
• The amount of cash taken at settlement.
• Gift funds in excess of the amount required for the cash investment.
• Equity in another property
• Borrowed funds from any source

Note: Exception Requests are subject to a complete review of all pertinent loan documentation. Compensating factors are not a guarantee of loan approval.

**GENERAL INFORMATION**

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3. General Information**3.1. Lien Position**

The loan application must be a valid first lien on the residential mortgage property. The mortgaged property must be free and clear of all liens and encumbrances and no rights may be outstanding that could give rise to such liens, except for liens for real estate taxes and special assessments not yet due and payable. Any additional liens to the aforementioned mortgage must be either paid off or subordinated with a recorded and approved subordination agreement.

MWF does allow for simultaneous subordinate liens through an approved down payment assistance program.

3.2. Loan Submissions

Loan submissions must contain the minimum submission requirements as published by policy. Any loans received that are incomplete may not be accepted and submitted to underwriting. A MWF associate will notify the loan originator or branch designate to advise of the missing documents. Once notified, the submitting broker or branch will have 24 hours from submission to cure the missing items. Documentation not received in the specified time frame will result in the file being rejected as a submission. Once all minimum submission requirements are received, the loan file may be resubmitted.

4. Borrower Eligibility**4.1. Eligible Borrowers**

Eligible borrowers include natural persons with a valid social security number and one of the following Residency statuses as determined by the United States Citizenship and Immigration Services (USCIS):

- U.S. Citizen
- Permanent Resident Alien
- Non-Permanent Resident Alien

4.2. Ineligible Borrowers

- Borrowers without a valid, legitimate Social Security number.
- Foreign Nationals
- Borrowers with diplomatic immunity.
- Corporations, estates, life estates, limited or general partnerships, not-for-profit organizations, schools, churches, etc.
- Conservatorships.

**BORROWER ELIGIBILITY**

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4.3. Permanent Resident Alien

Permanent resident aliens are non-United States citizens who hold acceptable evidence of permanent residency issued by The Citizenship and Immigration Services within the Department of Homeland Security.

Permanent resident aliens, whose income and/or assets are being used to qualify for a loan, must provide an unexpired, legible copy of the front and back of USCIS form 1-551 (Permanent Resident/ "Green" Card).

Note: While the Green Card itself states "Do Not Duplicate" for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.

4.4. Non-Permanent Resident Alien

Non-permanent resident aliens are non-United States citizens who are allowed to reside in the United States on a temporary basis and may have been granted authorization to work in the U.S. by the USCIS. Non-permanent resident aliens must have a valid, non-expired, Employment Authorization Document (EAD).

If the EAD is expiring with 90 days, the following additional documentation is required:

- Copy of renewal application
- VOE stating the likelihood of employment is to continue

There are no restrictions for non-permanent resident aliens; they should be underwritten using the same criteria as United States citizens. All standards for determining stable monthly income, adequate credit history and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are non-permanent resident aliens.

To be eligible for financing, a Non-Permanent Resident Alien must also have a prior 2-year work history in the United States that can be expected to continue for three years (in addition to the valid EAD).

4.4.1. Required Visas

All non-permanent resident aliens must provide evidence of a valid, acceptable visa. A copy of the unexpired visa must be included in the loan file evidencing one of the following visa classes:

- A Series (A-1, A-2, A-3): these visas are given to officials of foreign governments, immediate family members and support staff. Only those without diplomatic immunity, as verified on the visa, are allowed.
- E-1 Treaty Trader and E-2 Treaty Investor: this visa is essentially the same as an H-1 or L-1; the title refers to the foreign country's status with the United States.
- G series (G-1, G-2, G-3, G-4, G-5): these visas are given to employees of international organizations that are located in the United States. Some

**BORROWER ELIGIBILITY**

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examples include the United Nations, Red Cross, World Bank, UNICEF and the International Monetary Fund. Verification that the applicant does not have diplomatic immunity must be obtained from the applicant's employer and/or by the viewing the applicant's passport.

- H-1 (includes H-1B and H-1C), Temporary Worker: this is the most common visa given to foreign citizens who are temporarily working in the United States.
- L-1, Intra-Company Transferee: an L-1 visa is given to professional employees whose company's main office is in a foreign country.
- O-1A: individuals with an extraordinary ability in the sciences, education, business, or athletics (not including the arts, motion pictures or television industry).
- O-1B: individuals with an extraordinary ability in the arts or extraordinary achievement in motion picture or television industry.
- O-2: individuals who will accompany an O-1, artist or athlete, to assist in a specific event or performance.
- TN, NAFTA visa: used by Canadian or Mexican citizens for professional or business purposes.
- TC, NAFTA visa: used by Canadian citizens for professional or business purposes.

4.5. Non-Citizen Borrower Eligibility – Fannie Mae ONLY

Non-citizens who are lawful permanent or non-permanent residents of the United States are allowed mortgages under the same terms available to U.S. Citizens.

Borrower is legally present in the United States if:

- He/she has a valid Social Security Number (SSN) or valid Individual Taxpayer Identification Number (ITIN); and
- He/she has current, verified status, which may be documented by a valid employment authorization document, or other documentation showing immigration status is current (e.g., green card, work visa, etc.).

A borrower who is legally present must meet all other applicable FNMA underwriting and eligibility requirements, including the continuity of income requirements that apply to all borrowers:

- Documentation of income continuity is not required for most employment-related income types (e.g., base, bonus, overtime, commission).
- If a borrower is reliant on income for which documentation of continuity is required, the mere fact that a borrower has current, verified status does not impact the continuity of income analysis. For example, if a borrower can provide documentation of 3-year income continuity when required, the fact that their status is renewed only every 2 years is not a factor – the borrower is legally present and has met the continuity of income requirements.

**BORROWER ELIGIBILITY**

Search Tip: Use the CTRL+F Key to find words within this document.

Approve/Eligible through DU is acceptable.

Manual Underwrites must follow all Fannie Mae manual underwriting guides. See manual underwriting section.

DACA with SSN

- DACA Borrowers with both SSN and appropriate borrower eligibility documentation are eligible under standard LTVs for conforming fixed rate loans.

DACA/ITIN Borrowers (No SSN)

- Owner Occupied Conforming Conventional
- Max LTV/CLTV 80%
- Must be registered and locked under the CF30D program
- Subject to manual underwriting – See Manual Underwriting section
- Has acceptable non-traditional credit history

4.6. Foreign Nationals

Foreign nationals who have no lawful residency status in the U.S. are not considered to be non-permanent resident aliens and are not eligible for financing.

4.7. Diplomatic Immunity

Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction are not eligible. This includes embassy personnel with diplomatic immunity. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List at <http://www.state.gov/s/cpr/rls/>.

4.8. Inter Vivos Revocable Trust Lending California

[See Trust Requirements](#)

4.9. Social Security Numbers

All borrowers, including permanent and non-permanent resident aliens, are required to have a valid Social Security number.

4.10. Co-Borrowers

A co-borrower is an individual who applies jointly with the applicant for shared or joint credit and who takes title to the property and is obligated on the mortgage and the Note. The co-borrower must execute the Note and the Security Instrument.

4.11. Non-Occupant Co-Borrower

When allowed, the non-occupant co-borrower need not be a family member. There should be, however, an established relationship and motivation not including equity participation for profit.

**BORROWER ELIGIBILITY**

Search Tip: Use the CTRL+F Key to find words within this document.

DU/LP Findings will be followed regarding non-occupant co-borrowers but generally DU analyzes the risk factors in the loan casefile without the benefit of the non-occupant co-borrower's income or liabilities.

4.12. Co-Signers

- Do not hold ownership interest in a property
- Are obligated on the mortgage Note and liable for repaying the obligations
- Must complete and sign all loan documents except the security instruments

4.13. Ineligible Parties

MWF must confirm that companies or individuals involved in the origination, underwriting, or servicing of the mortgage transaction are not on the General Services Administration (GSA) Excluded Party List of the HUD Limited Denial of Participation (LDP) List prior to delivery of the loan. Regardless of the reason for the party being excluded, any party to the transaction included on either list will result in the loan being ineligible for delivery.

Companies or individuals involved in a mortgage transaction include a person with management or supervisory responsibilities within a seller's or servicer's company and any person or entity with critical influence on or substantive control over the origination or servicing of a mortgage or any function related to the origination or servicing of a mortgage.

4.14. Non-Arm's Length and Identity of Interest Transactions**4.14.1. Occupancy**

- Primary Residence
- Second Home
- Investment

4.14.2. Ineligible Transactions

- Newly Constructed
 - Second Home
 - Investment
- Seller/Owner is also acting as Loan Officer on the transaction
- Investment transactions that are possible bail outs

Certain transactions pose an increased risk and additional precautions must be taken to evaluate and prudently underwrite for that risk. In-depth analysis of transactions between parties with family or business relationships may reveal unsupported values, straw borrowers, non-arm's length or at-interest influences, inflated sales prices, or excessive fees or disbursements.

**BORROWER ELIGIBILITY**

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Definitions

A non-arm's length transaction is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. This relationship may influence the transaction. Common types of non-arm's length transactions include:

- Family sales
- Property in an estate
- Employer/employee sales
- Flip transactions

An at-interest transaction involves persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction (selling/listing agent and mortgage broker, for example). At-interest transactions carry increased risk due to the greater vested interest in the transaction by one of the parties. Examples of at-interest transactions include:

- Builder also acting as realtor/broker
- Realtor/broker selling own property
- Realtor/broker acting as listing/selling agent as well the mortgage broker

All non-arm's length transactions are considered at-interest transactions; however, at-interest transactions are not always non-arm's length.

Additional Risk

Additional risks that may be posed by an Identity of Interest Transaction include:

- Absence of equity or down payment
- Purchase price may not represent actual consideration given
- Financial bailouts or attempts to hide poor credit
- Occupancy concerns
- Financing of unsold builder inventory, especially in soft real estate markets
- Inflated appraised value

Red Flags

Transactions which include any of the following characteristics should be given additional scrutiny as part of the Seller's underwriting, closing and quality control functions:

- Selling price exceeds listing price.
- Seller on Closing Disclosure does not match the title work or appraisal.
- Disbursements on the seller section of the Closing Disclosure to the borrower or an entity controlled by the borrower, or to a company owned by the property seller.
- Closing Disclosure shows a payoff in excess of \$5000 but no corresponding lien reflected on the preliminary title policy.
- Large payments to a homeowner's association (over and above what is allowed per the guidelines).



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- Lien amount verified on the title work or credit report is not consistent with the payoff shown on the Closing Disclosure.
- Excessive closing costs, i.e., beyond reasonable and customary settlement charges.
- Questionable sources of funds to close, including DAPS and other assistance programs not in compliance with Freddie Mac or Fannie Mae published requirements.
- Borrower, Subject Property and originating Client are located in three different states.

The table below is designed to provide examples of various Identity of Interest transactions but is not meant to be all-inclusive.

Non-Arms Length	At-Interest
<p>A Non-Arm's Length transaction is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. This relationship may influence the transaction. Common types of Non-Arm's Length transactions include:</p> <ul style="list-style-type: none"> • Seller is a corporation, partnership, or any other business entity • Loan officers originating loans of their family members • Operations Staff processing, underwriting or funding loans of their family members • Family Sales • Property in an estate • Employer/employee sale (This is a transaction in which a builder or developer is selling a property to one of its employees who does not hold a principal ownership interest) 	<p>An At-Interest transaction involves persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction (selling/listing agent and mortgage broker, for example). At-Interest transactions carry increased risk due to the greater vested interest in the transaction by one of the parties. Examples of At-Interest transactions include:</p> <ul style="list-style-type: none"> • Seller and Buyer relationship • Borrower is currently a tenant and purchasing from landlord • Real Estate Agent/Broker is acting as the Loan Officer/Mortgage Broker on the subject property • Real Estate Agent/Broker and the Loan Officer are employed by the same business entity • Spouse of a loan officer is a notary • Builder acting as Realtor/Broker on subject property • Realtor/Broker selling own property

5. Occupancy

Occupancy is an important factor in determining risk and appropriate lending levels as it is typically viewed that borrowers will be more diligent in the handling of credit related to their primary residence than an investment property or second home and therefore less likely to default on a loan secured by their owner-occupied residence.

Occupancy intent must be established and documented by disclosures. Note Addendum, and/or Security Interest Riders.



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5.1. Primary Residence

A principal residence, also referred to as an owner-occupied primary residence, is 1-to-4 family property that is the borrower's primary residence. At least one of the borrowers must occupy and hold title to the property, and also must execute the Note and Deed of Trust. The borrowers must occupy the subject property within 60 days of close of escrow.

For owner occupied transactions, acceptable documentation is required to confirm the borrower's intent to occupy the property as their principal residence and if there are any address discrepancies or "red flags" that would imply occupancy other than indicated. Documentation must be scrutinized to ensure reasonableness of the owner occupancy status in order to proceed with the transaction.

If the purchase is an owner-occupied transaction, and the borrower is retaining his/her current principal residence, the following must be met.

5.1.1. Military Borrower – Freddie Mac ONLY

Freddie requires at least one Borrower to occupy the Mortgaged Premises as a Primary Residence as of the Delivery Date.

To provide flexibility for our military Borrowers, we have expanded our requirements to permit a Mortgage to an active-duty military Borrower who is unable to occupy the Primary Residence prior to the Delivery Date due to military service be considered an owner-occupied property Mortgage. The Borrower's military orders must verify that the Borrower is temporarily unable to occupy the Primary Residence due to the military assignment.

MWF must deliver ULDD Data Point Investor Feature Identifier (Sort ID 368) and enter the valid value of "D76" indicating a Primary Residence for an active-duty military Borrower.

5.2. Second Home (Including High Balance, Super Conforming and Non-Conforming)

A second home is a single-family property that the borrower occupies in addition to the borrower's primary residence. The property must be located in an area that can reasonably function as a second home and must be located a reasonable distance away from the borrower's primary residence. They are restricted to a one-unit dwelling and the borrower must have exclusive control over the property. The property cannot be subject to any agreements that give a management firm or entity control over the occupancy of the property; subject to any rental pools; agreements that require the Borrower to rent the property; or involve revenue sharing between any owners and developer or another party.

Second homes with seasonal limitations on year-round occupancy (e.g., lack of winter accessibility) are eligible, provided the appraiser includes at least one comparable sale with similar seasonal limitations to demonstrate the marketability of the subject property.

Second Homes may be rented out on a short-term basis provided that:



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- The Borrower keeps the property securing the second home mortgage available primarily (i.e., more than half of the calendar year) as a residence for the Borrower's personal use and enjoyment; and
- The property is not subject to any rental pools or agreements that require the Borrower to rent the property, give a management company or entity control over the occupancy of the property or involve revenue sharing between any owners and developer or another party.

The borrower may not own another second home or investment property in the same area – exceptions may be granted on a case-by-case basis. The hazard insurance policy may not contain any coverage for loss of rent insurance. When financing a second home, the borrower must also meet guidelines for maximum number of financed properties.

5.3. Investment Properties (Including High Balance, Super Conforming and Non-Conforming)

An investment property is defined as a 1 - 4-unit property that is owned by, but not occupied by, the borrower. An investment property will generally be subject to higher pricing and lower loan-to-value allowances. Most regulatory disclosures do not apply to investment properties.

Note: At least one borrower must have owned or currently owns a property.

5.3.1. First Time Homebuyers

- First Time Homebuyers ineligible to purchase investment property and use rents for qualifying. Rental Income cannot be used for qualifying purposes unless the borrower(s) currently own a primary residence or have a primary housing expense.

5.3.2. Rent Loss Insurance

Rent loss insurance for subject property is not required.

5.4. Maximum Number of Properties Financed

5.4.1. Multiple Financed Property Policy

Borrowers with 1 - 6 (1 - 4 units) financed properties including the subject property, conforming conventional guides apply for both Fannie Mae and Freddie Mac.

5.4.2. MWF Financed Properties

MWF limits the maximum number of loans to one borrower to 6 loans or \$4 million in aggregate.

5.4.3. Requirements for Borrowers with 7-10 Financed Properties

All loans with 7 to 10 properties require a 2nd Level Review by Corporate Underwriting Management.



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5.4.3.1. Fannie Mae Requirements

- Determined by DU.
- Mortgage loans secured by second homes or investment properties that meet the five to ten financed property requirements must be delivered with SFC 150.

5.4.3.2. Freddie Mac Requirements

- Receive a Risk Class of Accept
- FICO Score of 720
- Reserves of eight months on each additional second home and/or 1 - 4-unit investment financed properties is required.

5.4.4. Maximum Number of Owner-Occupied in 12 Month Period

Typically, MWF will not lend on more than one owner-occupied transaction in a twelve-month period. This is not to imply, however, that all multiple owner-occupied transactions in the said time period are ineligible.

If the review of the application and credit indicate that the borrower has participated in another mortgage transaction within the last twelve months, evidence as to the nature of the borrower's occupancy must be provided with the loan file when submitted to Underwriting, along with a strong motivational letter.

At no time will MWF allow for the intended misrepresentation of borrower occupancy through simultaneous owner-occupied transactions.

5.4.5. Maximum Loans to One Borrower in a Contiguous Area

General Underwriting Guidelines limit the number of MWF financed rental properties that a borrower may own in one contiguous area (generally defined as within a two-block radius) to no more than two properties.

Guidelines further restrict the number of financed properties any one borrower may have. The following pertains to Conforming loan amounts only:

- If the mortgage is secured by the borrower's principal residence, there are no limitations on the number of properties that the borrower can finance.
- If the mortgage is secured by a second home or an investment property, the borrower may own, or be obligated on, up to **ten financed properties** (including his or her principal residence).
- The financed property limit applies to the borrower's ownership of one-to-four unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers. These limitations apply to the total number of properties financed, not to the number of mortgages on the property.

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Type of Property Ownership	Property Subject to Limitations?
Joint ownership of residential real estate (this is considered to be the same as total ownership of an individual property). Note: Other properties owned or financed jointly by the borrower and co-borrower are only counted once.	Yes, if the owned property is financed
Ownership of commercial real estate.	No
Ownership of a multifamily property consisting of more than four dwelling units.	No
Joint or total ownership of a property that is held in the name of a corporation or S corporation, even if the borrower is the owner of the corporation and the financing is in the name of the corporation or S corporation.	No
Joint or total ownership of a property that is held in the name of a corporation or S corporation, even if the borrower is the owner of the corporation; however, the financing is in the name of the borrower.	Yes
Ownership in a timeshare.	No
Obligation on a mortgage debt for a residential property (regardless of whether or not the borrower is an owner of the property).	Yes
Ownership of a vacant (residential) lot.	No
Ownership of property that is held in the name of a limited liability company (LLC) or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of 25% or more, regardless of the entity (or borrower) that is the obligor on the mortgage.	Yes

**UNDERWRITING**

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Type of Property Ownership	Property Subject to Limitations?
Ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25% and the financing is in the name of the LLC or partnership.	No
Ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25% and the financing is in the name of the borrower.	Yes
Ownership of a manufactured home and the land on which it is situated that is titled as real property.	Yes
Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).	No

6. Underwriting**6.1. AUS Decisions****6.1.1. Fannie Mae Desktop Underwriter****Conforming Loans (Including High Balance)****6.1.1.1. Loans With "Approve/Eligible" Recommendation**

The subject mortgage loan must pass all the eligibility and underwriting tests performed by Desktop Underwriter and any verification messages or approval conditions specified on the Desktop Underwriter Findings Report must be satisfactorily resolved before closing.

Terms and conditions of the closed loan and underwriting information in the loan file must match the data on which the Desktop Underwriter recommendation/verification messages are based.

Other Fannie Mae DU Response

- Refer/Eligible - only when significantly inaccurate credit or insufficient/invalid credit.

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- Refer w/Caution - only when significantly inaccurate credit or insufficient/invalid credit.

6.1.2. Freddie Mac Loan Prospector**Conforming Loans (Including Super Conforming)****6.1.2.1. Loans with an "Accept" Risk Class**

The subject loan must pass all eligibility and underwriting tests performed by Loan Prospector. Any verification messages or approval conditions specified on the Loan Prospector Feedback Certificate must be satisfactorily resolved.

Terms and conditions of the closed loan, and underwriting information in the loan file must match the data on which the Loan Prospector "Accept" risk class is based.

Other Freddie Mac LP Response:

- Invalid - only when significantly inaccurate credit or insufficient/invalid credit.
- Ineligible - only when significantly inaccurate credit or insufficient/invalid credit.
- Incomplete - only when significantly inaccurate credit or insufficient/invalid credit.
- Caution - only when significantly inaccurate credit or insufficient/invalid credit.

Note: Loans receiving any of the above feedback responses from LP are not eligible.

6.2. Manual Underwriting

MWF will allow Manual Underwriting, per FNMA & DU guidance, of **Conventional Conforming** transactions that meet the criteria below:

6.2.1. Eligible Products

- 30 & 15 Year Fixed Only

6.2.2. Eligible Scenarios

- Erroneous Credit (substantially documented)
- AUS not recognizing transaction parameters
- Disputed Tradelines

Note: A Refer with Caution disposition from DU is not an automatic criteria for a manual underwrite. Manual Underwrites are only allowed due to the scenarios listed above.

6.2.3. Special Feature Code

- Special Feature Code 343 must be used.

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6.2.4. DU Waivers are not allowed

The loan file must contain the following:

- 2 Month Assets
- 2 Years complete Income (Tax Returns & W2s & for Self Employed borrower if applicable)
- VOM/VOR as applicable

6.2.5. Ineligible Scenarios

- Manufactured Homes
- Non-Traditional Credit Profiles
- Authorized user accounts are not acceptable

6.2.6. Ratios for Manually Underwritten Loans

See [Product Matrix](#)

6.2.7. Minimum Trade Line Requirements

Borrower must meet standard credit reference guidelines. No thin credit or non-traditional credit allowed.

Note: See [Product Matrix](#) for further requirements

6.3. Documentation

The application package must contain acceptable documentation to support the underwriting decision.

When standard documentation does not provide sufficient information to support the decision, additional explanatory statements must be provided.

Verification forms must pass directly between lender and creditor without being handled by any third party.

Certified copies of exhibits will be accepted by MWF with verification of authenticity by the underwriter, as necessary. This verification must be in the form of verbal verification performed by a MWF associate.

Documentation must not contain any alterations, erasures, and correction fluid or correction tape. Copies must be stamped, "Certified, True and Exact Copies of the Original." Or a blanket certification can be provided.

Any available technology may be used to produce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.

6.3.1. Age of Credit Documents

The standard age of credit documents is FOUR months for existing and new construction. Credit documents include employment, credit reports, asset and income documentation.

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The maximum age for appraisals is 120 days from the inspection date for Conventional. The age of documents is measured from the date of the document to the date the note is signed.

If any document listed below is older than allowed, it must be updated prior to receiving final approval.

AGE OF CREDIT DOCUMENTS		
Document Title	Max Age	To Date Of
Credit Report	4 Months from date of application	Signed Note Date
Verification of Employment (VOE or VVOE)		
Verification of Deposit (VOD) (Seasoning guidelines apply)		
Verification of Mortgage		
Pay Stubs (Must be dated within 30 days of application date)		
Asset Statements		
Preliminary Title Report	90 days from date of application	Closing/Funding Date
Payoff Demand	30 days from receipt of payoff	
Pre-funding Verbal VOE	10 days	
Termite	6 months	
Septic & Well Certification	90 days	From Inspection Date

6.3.1. Age of Appraisal Property

Age of Appraisal Property must have been appraised within the 12 months that precede the date of the note and mortgage. The appraisal is valid for up to 4 months and, further, can be used up to 12 months if the value of the property has not declined (as evidenced by an appraisal update report on Form 1004D with an effective date within 4 months of the date of the note and the mortgage). However, when the age of the original appraisal report is more than 12 months, a new appraisal (rather than an update) is required.



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6.3.2. Additional Documentation

Tax returns, if required, must be true copies of filed returns and must be signed by the applicant on page 2 of the returns unless the lender has obtained one of the following signature alternatives:

- Documentation confirming that the tax returns were filed electronically, and
- A completed IRS Form 4506-T (signed by the borrower for the years in question, or
- IRS transcripts that validate the tax return.
- Do not accept copies that are signed by a tax preparer. Tax preparers only sign the filed original.
- Do not accept W-2 forms that are marked "Employer Copy". Employers do not distribute their copies.
- Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words and be signed and dated by the applicant.

6.3.3. Tax Returns

The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage loan.

Application Date	Disbursement Date	Documentation Required
Oct. 15 – Apr. 14	Oct. 1 – Apr. 14	The most recent year's tax return is required. Extensions are not permitted.
	Apr. 15 – Jun. 30	The previous year's tax return is recommended, but not required. If the borrower has filed returns with the IRS for the previous year, copies of that return are required. If not, the prior two years are required. Only signed IRS Form 4506–T is required for tax returns received.
	Jul. 1 – Oct. 14	The most recent year's tax return OR all of the following: Copy of Extension (IRS 4868). The 4868 should be compared to the borrower's tax liability from the previous two years. If inconsistencies are noted, the current tax returns are required. IRS Form 4506–T transcripts confirming "No Transcripts Available" for the applicable tax year, and Tax Returns for the prior two years
Apr. 15 – Oct. 14	Apr. 15 – Dec. 31	



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Application Date	Disbursement Date	Documentation Required
	Jan. 1 – Apr. 14	The most recent year's tax return is required. Extensions are not permitted.

6.3.3.1. Business Tax Returns

For Self-Employed borrowers, the following tax related documents are required:

- Tax returns as determined by AUS.
- A P&L and Balance Sheet if more than one calendar quarter has elapsed since the date of most recent calendar or fiscal-year end tax return was filed by the borrower – with no exceptions.

For business tax returns, if the borrower's business uses a fiscal year (a year ending on the last day of any month except December), MWF may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.

Note: If the analysis reflects that the business's income has significantly increased or decreased, additional year's signed tax returns should be obtained in order to determine the stability of the income.

See [Self Employed Documentation Requirements](#)

6.3.4. Acceptable Documentation

Alternative documentation provided in lieu of "Verification of Employment" and "Verification of Asset" forms must be legible originals or certified true and exact copies*. The documentation cannot contain any alterations, erasures or white outs.

*Each copy must be stamped and signed by the loan processor or branch manager, certifying that they are true copies of the originals. The individual certifying the original must include a signature, which contains at least his/her first initial and full surname.

Truncated or masked account numbers for bank and portfolio or investment accounts where at least the last four digits are displayed are permissible on the loan application, in DU, and on asset documentation, including verification reports obtained through the DU validation service.

6.3.5. Fax Copies

Fax copies in lieu of original documents or certified copies are acceptable subject to the following:

- Verification transmitted directly from the loan processor to an employer, depository institution, mortgagee or landlord. The employer, depository



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institution, mortgagee or landlord must transmit the verification directly back to the loan processor.

- Photocopies or faxes received by the loan originator or loan processor directly from the borrower are acceptable.
- Copies or faxes from a builder, real estate agent, property seller or other third party are unacceptable.

6.3.6. Internet Documentation

Internet documents/downloads of credit reports as well as income, employment and asset verification are acceptable. This allowance for internet documents does not change the required content or level of documentation needed. The information must be easy to read, understandable, and have no evidence of alterations, erasures or whiteouts, and must make sense based on the borrower profile and transaction terms.

The following source validation criteria apply to all documents obtained via the Internet:

- Identify the borrower as the employee or owner of the applicable account.
- Identify the credit reporting agency, employer, or depository/investment firm's name and source of information.
- Headers, footers, and the banner portion of the printout of the downloaded web page(s) must reflect the appropriate firm.
- Display the Internet uniform resource locator (URL) address and the date and time printed.
- If faxing an Internet download, make sure fax header does not cover URL information.

6.3.7. Re-verification Authorization

A borrower's consent must be evidenced by their signature on the appropriate form in order to allow subsequent re-verification as required.

6.3.8. Verification of Employment

Employment and income for a salaried employee may be verified by obtaining all of the following documentation in lieu of a "Verification of Employment" (VOE):

- Consecutive 30 days of pay stubs.
- The borrower's W-2 forms for the past two years. In lieu of W-2 forms, an IRS "Wage and Income Transcript (W-2 transcript) is permitted in lieu of the actual W-2 forms.
- The W-2 forms must be complete and legible.

Borrower's Pay Schedule	Number of Paystubs Required for Approved/Referred/Manual Underwritten Loans
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If borrower is paid:	Obtain:
Monthly	At least 1 paystub covering most recent full month employment.
Bi-Weekly	At least 3 consecutive paystubs.
Semi-Monthly (15th & 30th)	At least 2 consecutive paystubs.
Weekly	At least 5 consecutive paystubs

6.3.9. Pre-Closing Verbal Verification of Employment

A pre-closing verbal verification of employment is required within 10 business days prior to the note date.

Note: “Business Day” is defined as Monday through Friday, and does not include Saturday, Sunday, or Federal Holidays.

The “note date” is the date the borrower actually signs the documents, not the date printed at the top of the note.

The verbal verification of employment will be completed at the time documents are drawn. Additionally, the Doc Drawer will add a PTF condition that the documents must be drawn and executed by the borrower on or prior to the VVOE expiration date.

The VVOE will be considered expired after 10 business days from the date it was obtained. For example: The verbal verification of employment was completed by MWF on Friday, June 1, 2012. The expiration date of the VVOE would be June 15, 2012. The Borrower must sign loan documents on or prior to June 15, 2012.

If the Borrower does not sign the loan documents within the 10-day time frame, MWF must obtain a new VVOE. The borrower will be required to sign the loan documents on or before the expiration date of the VVOE.

If the loan documents have been sent to the Escrow and/or Title Company and the borrower fails to sign them on or prior to the expiration date of the VVOE, the loan documents are considered invalid and a full redraw will be required.

6.3.9.1. Verbal Verification of Employment Alternative – FANNIE ONLY

Fannie Mae will accept alternative documentation to satisfy the verbal VOR requirement on non-DU validation service loans. MWF may:

- Use an email exchange with the borrower’s employer within 10 business days prior to closing to verify employment.
- Must conduct due diligence to confirm the email address for the employer is accurate.



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- Must ensure the email is from the employer's work email address and includes the borrower's name, contact name, title, and work email address of the individual contacted at the employer, the date of contact, and the borrower's current employment status.

6.4. Credit

6.4.1. Frozen Credit Report – Fannie Mae

DU currently issues an error message when a borrower has a security freeze on their credit report with Equifax, Experian, or TransUnion. DU will now be updated to underwrite loan casefiles when a borrower has placed a freeze on their credit report at only one of the three credit repositories.

When credit is frozen at one of the three repositories, the loan casefile will be underwritten using the credit data received from the other repositories, and DU will issue the following Potential Red Flag message:

Based on the credit data received a borrower has frozen their account with one of the credit repositories. No data from that repository was used in underwriting the loan casefile. The lender remains responsible for preventing fraud which includes, but is not limited to, ensuring the borrower's identity has been verified. In addition, the lender must continue to investigate any liabilities or derogatory credit that is disclosed by the borrower but not reflected on the credit report.

When credit is frozen at one of the three repositories, and no credit scores are received from the other two repositories, DU will evaluate the loan casefile using the guidelines specific to borrowers without traditional credit and issue a Potential Red Flag message. This new message will inform the lender that the borrower has frozen their account with one of the credit repositories, and that the lender remains responsible for ensuring the borrower's identity has been verified and any credit disclosed by the borrower is investigated.

Note: If credit is frozen at two or more of the credit repositories, DU will issue an Error recommendation and a message stating the loan casefile cannot be underwritten because a borrower has frozen their account at two or more credit repositories.

6.4.2. Frozen Credit Report – Freddie Mac

For borrowers with frozen credit, no more than one of the national credit repositories can have frozen credit information.

6.4.3. Credit Score Requirements

All loans require a credit score to be established. The three major Credit Repositories ("Agencies") offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Emperica Score" and Equifax "Beacon Score". All are acceptable and are referred to as the "Credit Score."



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6.4.4. Inquiries

Letter of explanation is required on all inquiries reported on credit report. Mortgage inquiries will require the borrower to address the inquiry and indicated the borrower is not currently obtaining a new mortgage through the new lender. "Shopping for a mortgage" is no longer acceptable.

6.4.5. Co-Borrowers without Credit Scores

Co borrowers who do not have traditional credit and credit scores are allowed if at least one other borrower on the loan application has one or more credit scores **and** all of the following conditions are met:

- Married Couples; registered domestic partners. Co-borrowers that can provide documentation they have been living together for the past 12 months (consecutively).
- One Unit - Principal Residence. All borrowers to occupy the subject property.
- Purchase or Rate/term Refinance.
- Conforming Loan Limit (High Balance not eligible).
- Cannot have an interest only feature.
- AUS approvals only. No manual underwrites.

6.4.6. Credit Score Selection

The following criteria should be used to determine each individual borrower's credit score using the "middle/lower" method:

- If there are three valid credit scores for a borrower, the middle score of the three scores is to be used.
- If there are three valid credit scores for a borrower but two of the scores are the same, the duplicate score is used.
- If there are two valid scores for a borrower, the lower of the two scores is to be used.
- If there is one valid score for a borrower, that score is used.

6.4.7. Minimum Credit Scores

Transaction Type	Min FICO
Standard	620 ≤ 95% 640
Delegated MI	660
High Balance Conv	See Product Matrix
2nd Home & Investment with 5-10 Financed Properties	720
LP Super Conforming	620
Manual Underwrite	See Product Matrix
Manufactured	620

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6.4.8. Underwriting Score

The term "Underwriting Score" refers to the overall credit score applicable to a specific mortgage loan transaction as determined using the Agencies' "middle/lower, then lowest" credit score selection methodology, which is equivalent to Fannie Mae's "Representative Credit Score" and Freddie Mac's "Indicator Score."

6.4.9. Underwriting Score Selection

After selecting the appropriate credit score for each borrower, the Underwriting Score must then be determined:

- If there is more than one borrower, the lowest selected credit score among all borrowers is the Underwriting Score.
- When there is only one borrower, the selected credit score for that borrower is also the Underwriting Score.
- If the loan was underwritten through Fannie Mae's Desktop Underwriter or Freddie Mac's Loan Prospector, the system generated score must be reflected on the loan submission form (FNMA/FHLMC 1008). Additionally, the original credit report must be included in the file showing the score.

6.4.10. Housing Payment History – Fannie Mae

Borrower's credit report must be reviewed to determine the current status of each credit account (including mortgage accounts), the timeliness of payments, and the frequency, recency, and severity of any delinquent payments.

- Credit histories that include no late payments, collection or charged-off accounts, foreclosures, deeds-in-lieu, bankruptcies, or other public records information represent a lower credit risk.
- Credit histories that include recent late payments represent a higher credit risk than those with late payments that occurred more than 24 months ago. When there are payments that were 30, 60, or 90 days (or longer) past due, the lender must determine whether the late payments represent isolated incidences or frequent occurrences. Delinquent payments must be evaluated in the context of the borrower's overall credit history, including the number and age of accounts, credit utilization, and recent attempts to obtain new credit. For example, a credit history that includes delinquent payments along with recent inquiries and a high balances-to-limits ratio indicates a high credit risk.
- Credit histories that include foreclosures, deeds-in-lieu, and public records information (such as bankruptcies, judgments, and liens) represent a higher credit risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.

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6.4.10.1. Documenting Previous Mortgage History

The borrower's credit report must be reviewed to determine the status of all mortgage accounts. If a borrower had previous mortgages, the mortgages do not have to be independently verified if the mortgage's payment history provided the credit report includes a reference to the mortgage (or mortgages) and reflects 12 months of the most recent payment activity.

If adequate mortgage payment history is not included in the borrower's credit report, then you must use the following to verify the borrower's payment history on a previous mortgage(s):

- A standard mortgage verification.
- Loan payment history from the servicer.
- The borrower's canceled checks for the last 12 months; or
- The borrower's year-end mortgage account statement provided the statement includes a payment receipt history, and, if applicable, canceled checks for the months elapsed since the year-end mortgage account statement was issued.

6.4.10.2. Standard Mortgage Verifications from Servicers

When standard mortgage verifications from servicers or holders are used, it must ensure that the verifications include:

- The unpaid principal balance of the mortgage and monthly payment amount.
- The present status of the mortgage, such as current, 30 days' delinquent, etc.; and
- The borrower's payment history.

When a servicer fails to provide all of the requested information, you must then rely on information provided through the borrower's canceled checks. The checks must:

- Be legible,
- Identify the mortgage servicer or mortgage holder as the payee,
- Indicate that the servicer or holder endorsed the check for deposit, and
- Indicate the date the servicer or holder deposited the check.

6.4.10.3. Existing Mortgage Payment Requirements

On the date of the loan application, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date.

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6.4.10.4. Excessive Mortgage Delinquency

Borrower's credit history must be reviewed to determine previous mortgage delinquency, severity (e.g., 30, 60, or 90 days), and recency of the delinquency. Loans with excessive prior mortgage delinquencies are not eligible for delivery to Fannie Mae. Excessive prior mortgage delinquency is defined as any mortgage tradeline that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date.

Note: For purposes of complying with the guidelines in this topic, timeshare accounts identified as mortgage tradelines are not required to meet the requirements described above and are considered to be installment accounts.

6.4.11. Housing Payment History – Freddie Mac**6.4.11.1. Documenting Borrower's Credit Reputation**

To document the credit reputation for Loan Product Advisor® Accept and A-Minus Mortgages, use the following:

- The Uniform Residential Loan Application
- The credit reports
- The Feedback Certificate
- An underwriting summary

Direct verification of Mortgage debt, rental payments and other debts not shown on the credit reports are typically not required for Accept Mortgages.

Explanation of adverse or derogatory information is not required to be obtained or documented on Accept Mortgages

6.4.11.2. Evaluating Borrower's Credit Reputation

For Accept Mortgages, Loan Product Advisor has evaluated the Borrower's credit reputation, and determined that the credit reputation is acceptable.

6.4.12. Separated Borrower

If a borrower is separated, documentation is necessary to determine the division of assets, liabilities, and potential obligations.

If the borrower is legally separated, a copy of the recorded legal separation agreement is required in order to exclude specific obligations that would otherwise be included in the borrower's qualifying ratios.

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6.4.13. Divorce Decrees and a/k/a

Multiple names (aka's) should trigger, at a minimum, a letter of explanation from the borrower regarding the multiple names and if at that point it is revealed that a previous marriage was involved request the divorce decree. If there is any other information to suggest a divorce such as child support, alimony payments, request the divorce decree. There is no maximum time period in which the divorce decree would not be called for but certainly if the borrower has been divorced for 20 years, a letter of explanation as to when the divorce took place and that no current alimony/child support is involved would suffice.

6.4.14. Disputed Credit Report Tradelines

When the credit report tradelines disputed by the borrower, DU will first assess the risk of the loan casefile using all tradelines, including those disputed. If DU issues an Approve recommendation using the disputed tradelines, no further documentation or action is necessary. DU will issue a message specific to this scenario.

If DU does not issue an Approve recommendation when including the disputed tradelines, DU will re-assess the risk without using the disputed tradelines. If DU is then able to issue an Approve recommendation, the lender must investigate the tradelines to determine whether the borrower is responsible for the accounts or if the account information is accurate or complete.

- If the borrower is not responsible for the disputed accounts, the lender must obtain supporting documentation and may deliver the loan as a DU loan. No further action is necessary regarding the disputed tradelines.
- If the borrower is responsible for the disputed account, the lender must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the lender may deliver the loan as a DU loan.
- If the borrower is responsible for the disputed account and the account and tradeline information is accurate and complete, the loan is not eligible for delivery as a DU loan. The lender may manually underwrite the loan if the transaction is eligible for manual underwriting.

The monthly payments for the disputed tradelines must be included in the debt-to-income ratio if the accounts belong to the borrower.

Note: Tradelines reported as medical debt are not shown in the disputed tradeline message. Therefore, lenders are not required to investigate disputed medical tradelines.

Examples

The following scenarios are examples of when a loan receiving an Approve/Eligible recommendation with the disputed tradeline(s) excluded from DU's risk assessment would be eligible for delivery as a DU loan:



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- A borrower's account was referred for collection by the creditor. Subsequently, the borrower paid off the account, but the pay-off was not reported on the tradeline. The borrower requested that a dispute be placed on the tradeline. The tradeline information was accurate, but because it did not reflect that the borrower paid off the account, it may be considered incomplete. The borrower must provide documentation that the account was paid in full.
- A borrower and his son have the same name (Sr. and Jr.). The borrower's credit report contains tradelines that actually belongs to the son. The tradeline is reported as disputed. The borrower can provide confirmation that he is not obligated on the account.
- The servicer of a disputed loan indicates a late payment in January of the previous year. The borrower can provide documentation (such as canceled checks or bank statements) that indicated that the payment was made on time.

The following scenario is an example of when a loan receiving an Approve/Eligible recommendation with the disputed tradeline(s) excluded from DU's risk assessment would not be eligible for delivery as a DU loan:

- The credit report indicates a disputed tradeline on the borrower's mortgage being refinanced. The tradeline indicates a 60-day late payment in January of the previous year. The borrower cannot provide any documentation to support that the payment was made on time.

6.4.15. Delinquent Credit

6.4.15.1. Adverse Credit

When significant adverse credit is identified in a borrower's credit history, documentation must be provided evidencing whether the derogatory information was due to extenuating circumstances or financial mismanagement, and that an acceptable credit history has been re-established.

6.4.15.2. Derogatory Credit Waiting Period Requirements DU

The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the credit report date for loans receiving a DU Approval.

Must receive DU Approve including those with extenuating Circumstances.

The following table summarizes the waiting period requirements for all significant derogatory credit events:

Derogatory Item	Waiting Period - DU
Foreclosure	Home was given back to the bank – no owner participation.



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Derogatory Item	Waiting Period - DU
	<ul style="list-style-type: none"> • 7 Years from the date the foreclosure was completed and transferred back to the bank if no extenuating circumstance. • 3 Years from the date the foreclosure was completed and transferred back to the bank with acceptable extenuating circumstance. <ul style="list-style-type: none"> ○ 90% Maximum LTV/CLTV/HCLTV ○ Primary Occupancy ○ Purchase & Rate/Term Refinance
Deed-in-Lieu of Foreclosure, Short Sale, Mortgage Account Charge-Off*	<p>Short Sale: Home sold, but sales price did not cover amount owed.</p> <p>Deed-in-Lieu: Home returned to lender in exchange for loan cancellation.</p> <ul style="list-style-type: none"> • 4 Years from the date the sale closed and was transferred to new owner or transferred back to the bank if no extenuating circumstance. • 2 Years from the date the sale closed and was transferred to new owner or transferred back to the bank if with acceptable extenuating circumstance.
Bankruptcy Chapter 7	<p>Debts are discharged through BK; client does not pay any debts owing.</p> <ul style="list-style-type: none"> • 4 Years re-established credit from date of discharge or dismissal date. • 2 Years re-established credit from date of discharge or dismissal date with acceptable extenuating circumstance.
Bankruptcy Chapter 13	<p>Debts are paid back on a monthly scheduled payment plan.</p> <ul style="list-style-type: none"> • 2 Years re-established credit from date of discharge. • 4 Years re-established credit from date of dismissal. • 2 Years re-established credit from date of dismissal with acceptable extenuating circumstances and approval from Trustee or Bankruptcy Judge. <p>The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge.</p> <p>A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.</p>
Multiple Bankruptcy Filings in Past 7 Years	<p>Borrower has more than one BK filing in the past 7 years.</p> <ul style="list-style-type: none"> • 5 Years re-established credit from date of discharge. • 3 Years re-established credit from date of discharge with acceptable extenuating circumstance.



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Note: When both a bankruptcy and foreclosure are disclosed on the loan application or credit report, the bankruptcy waiting period may be used if the mortgage loan was discharged in the bankruptcy, otherwise the greater of the two waiting periods apply. To use the bankruptcy date, the property must have been discharged and surrendered through the bankruptcy per the bankruptcy papers.

6.4.15.3. Derogatory Credit Waiting Period Requirements LP

Must receive LP Eligible including those with extenuating Circumstances.

The following table summarizes the waiting period requirements for all significant derogatory credit events:

Derogatory Item	Waiting Period - LP
Foreclosure	<p>Home was given back to the bank – no owner participation.</p> <ul style="list-style-type: none"> • 7 Years from the date the foreclosure was completed and transferred back to the bank if no extenuating circumstance. • 3 Years from the date the foreclosure was completed and transferred back to the bank with acceptable extenuating circumstance. <ul style="list-style-type: none"> ○ 90% Maximum LTV/CLTV/HCLTV ○ Primary Purchase ○ Primary Rate/Term Refinance
Short Sale Deed-in-Lieu of Foreclosure	<p>Short Sale: Home sold, but sales price did not cover amount owed.</p> <p>Deed-in-Lieu: Home returned to lender in exchange for loan cancellation.</p> <ul style="list-style-type: none"> • 4 Years from the date the sale closed and was transferred to new owner or transferred back to the bank if no extenuating circumstance. • 2 Years from the date the foreclosure was completed and transferred back to the bank with acceptable extenuating circumstance. <ul style="list-style-type: none"> ○ 90% Maximum LTV/CLTV/HCLTV ○ Primary Purchase ○ Rate/Term Refinance.
Bankruptcy Chapter 7	<p>Debts are discharged through BK; client does not pay any debts owing.</p> <ul style="list-style-type: none"> • 4 Years re-established credit from date of discharge or dismissal date. • 2 Years re-established credit from date of discharge or dismissal date with acceptable extenuating circumstance.
Bankruptcy Chapter 13	<p>Debts are paid back on a monthly scheduled payment plan.</p> <ul style="list-style-type: none"> • 2 Years re-established credit from date of discharge.



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Derogatory Item	Waiting Period - LP
	<ul style="list-style-type: none"> • 4 Years re-established credit from date of dismissal.
Multiple Bankruptcy Filings in Past 7 Years	<p>Borrower has more than one BK filing in the past 7 years.</p> <ul style="list-style-type: none"> • 5 Years re-established credit from date of discharge or dismissal date.

6.4.15.4. Bankruptcy Discharge v Dismissal

A Discharge indicates a successful completion of the bankruptcy filing. In the case of a Chapter 13, the discharge is ordered by the court after the debtor successfully completes the repayment plan. A Dismissal indicates that the bankruptcy filing was either not approved or not completed and debts were not forgiven (discharged).

6.4.15.5. Extenuating Circumstance

If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include:

- Documents that confirm the event
 - Such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.; and
- Documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event
 - Such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.

The lender must obtain a written explanation from the borrower explaining the relevance of the documentation. The written explanation must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate that the borrower had no reasonable options other than to default on his or her financial obligations. The written explanation may be in the form of a letter from the borrower, an email from the borrower, or some other form of written documentation provided by the borrower.

6.4.15.6. Extenuating Circumstances Examples

Allowable extenuating circumstances consist of non-recurring events that are beyond the borrower's control and result in a sudden and prolonged reduction in income or a catastrophic increase in financial obligations. Examples include serious illness, the death of a wage earner or loss of job as result of a plant/business closure.

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Note: A divorce or job loss, in-of-itself, is not an allowable extenuating circumstance per agency guidelines and would require further underwriter review. Loss of self-employed income is not an allowable circumstance under any condition.

6.4.15.7. Bankruptcy/Foreclosure/Deed-in-Lieu of Foreclosure

The following ADDITIONAL CREDIT REQUIREMENTS apply to both Financial Mismanagement and Extenuating Circumstances:

The borrower(s) credit record under the re-established credit history must include:

- No more than two installment or revolving debt payments 30 days past due in the last 24 months
- No installment or revolving debt payments 60 or more days past due since the discharge or completion of the bankruptcy
- No housing debt payments past due since the discharge or completion of the bankruptcy
- No new public records for bankruptcies, foreclosures, deeds-in-lieu, unpaid judgments or collections, garnishments, liens, etc., since the discharge or completion of the bankruptcy
- Evidence that the Borrower's credit history does not contain multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit.

6.4.15.8. Consumer Credit Counseling

Borrowers who have experienced credit or financial management problems in the past may have elected to participate in consumer counseling sessions to learn how to correct or avoid such problems in the future. Whether borrowers have or have not completed participation in the sessions before closing on the mortgage transaction is not relevant since it is the borrower's credit history that is of primary importance.

6.4.15.9. Past-Due, Collections, and Charge-Off Accounts

Accounts that are reported as past due (not reported as collection accounts) must be brought current.

For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or charge-offs—regardless of the amount.

Note: If the lender marks the collection account Paid by Close in the online loan application, DU will issue a message in the Findings report stating that the collection must be paid.

For two- to four-unit owner-occupied and second home properties, collections and charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.

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For investment properties, individual 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.

6.4.15.10. Judgments and Liens**Fannie Mae**

Open judgements and all outstanding liens (excluding tax liens) that are in the Public Records section of the credit report will be identified in the Underwriting Findings report and must be paid off at or prior to closing. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be maintained in the permanent loan file.

Federal Tax Installments Plans are acceptable provided the following requirements are met:

- Payment included in the DTI ratio.
- 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.

Documentation Requirement:

- An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
- 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.

Freddie Mac

Judgements will be addressed with the LPA Findings. Follow Findings for guidance.

Tax liens can remain and be subordinated, as long as a current installment agreement is approved by IRS and in force.

Tax installment agreements are acceptable as long as they are approved by IRS, payment amount verified, and payment amount included in DTI.

6.4.15.11. Short Refinance/Modification/Restructured Loan

A restructured loan is a mortgage in which the terms of the original transaction have changed resulting in either the forgiveness of the mortgage or a restructure of the mortgage. This is either through a modification or the origination of a new loan that results in any of the following:

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- Forgiveness of a portion of the principal and/or interest on either the first or second lien.
- Application of a principal curtailment by or on behalf of the investor to simulate forgiveness.
- Conversion of any portion of the original mortgage debt to a soft subordinate mortgage.
- Conversion of any portion of the original mortgage debt from secured to unsecured.
- Payoff demands that are significantly lower than what is reported on the credit report or VOM as the high balance of loan will be carefully examined.

Note: Existing Modification agreement to be received and reviewed to determine if debt forgiveness was part of the modification.

6.4.15.12. Requirements for Re-establishing Credit

After a bankruptcy, foreclosure, deed-in-lieu, short sale or charge-off of a mortgage account, the borrower's credit will be considered re-established if all of the following are met:

- The waiting period and the related additional requirements are met.
- The loan receives a recommendation from DU that is acceptable for delivery to Fannie Mae or, if manually underwritten, meets the minimum credit score requirements based on the parameters of the loan and the established eligibility requirements.
- Nontraditional credit or "thin files" are not acceptable.

6.5. Income / Employment**6.5.1. Stable Monthly Income**

Establishing stable monthly income is based on the type of income received, the length of time received and whether or not the income is likely to continue. In addition, considerations in determining stable income for salaried applicants are length of time employed in current position, and length of time employed in a current profession.

6.5.2. Changes in Employment**Salary and Hourly Wage Earner**

Changes in employment are acceptable if it is demonstrated that the income is consistent, predictable and likely to continue.

- A borrower who has changed employment within the last 2 years, bonus, commission, overtime or other variable forms of income may only be used when the income analysis takes into consideration the following:
 - The line of work
 - Job position



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- Percentage of the variable income to base income
- Any change in the percentage of variable to base income

Self-Employed

The borrower must be self-employed for a minimum of two years.

If a borrower has been self-employed for two years and is relocating the business to a different geographic area, the income analysis must consider the acceptance of the company's service or products in the marketplace before considering the income for qualifying purposes.

6.5.3. Gaps in Employment

Gaps of employment greater than 30 days require an explanation and current income must be deemed reliable, stable and likely to continue.

6.5.4. Employment by Relatives or Transaction Participants

If the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transaction, the income used for qualifying must be supported by the tax returns. The following documentation must be obtained:

- Borrower's signed and completed personal federal income tax return for the most recent two-year period, and
- Verification of Employment form (VOE) or
- Pay stub(s) with W-2 form(s).

6.6. Income Analysis

6.6.1. Salary and Hourly

The completed [Wage Earner Income Calculation \(WEIC\)](#) tool must be included in the file for salary and hourly employees.

For the purpose of determining stable monthly income, fluctuating hourly employment earnings are considered to be employment earnings with hours that may fluctuate each week or pay period. The hours are not pre-determined; however, the employer and the Borrower may have a general expectation of weekly hours. The hourly pay rate is a pre-determined and agreed upon fixed amount.

- Fluctuating hourly earnings may be determined by a review of the year-to-date (YTD) income verification documentation with analysis focused on hours per pay period and YTD earnings in relation to hours worked
- Fluctuating hourly earnings are not considered base or salaried earnings
- Fluctuating hourly employment earnings are typically representative of non-exempt earnings
- Fluctuating hourly earnings do not include additional employed income (e.g., bonus, overtime, tips).



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6.6.1.1. **Current income reported on the VOE or pay stub**

May be used if it is consistent with W-2 earnings reported on the tax returns. If the tax return does not include W-2 earnings or income is substantially lower than the current VOE or pay stub, further investigation is needed to determine whether income is stable.

6.6.1.2. **Handwritten Pay Stubs**

- YTD Payroll Ledger
- One full month of cancelled payroll checks (front and back).

6.6.1.3. **Income not needed to Qualify**

For a salaried borrower, it is acceptable to remove variable income (bonus, commissions, overtime, etc.) and second job income (second salaried job, ownership of hobby business, etc.), when the additional income is not needed to meet credit qualification requirements. Significant loss associated with variable or hobby income must be analyzed.

6.6.1.4. **Base Pay**

Income received from salaried employment must be converted to a monthly rate of pay.

- Review the payroll period reflected on the paystub to determine whether the applicant is paid weekly, bi-weekly, semimonthly, or monthly.
YTD Earnings: Divide the YTD earnings by the time that has elapsed in the year according to the payroll period. To calculate a portion of a month, divide the number of days the payroll period covers by the number of days in that month.

If the monthly gross income calculated from the YTD earnings is significantly less than the monthly gross income calculated using the payroll period, the following may be reasons for the difference, and the loan file must contain an assessment and rationale for the use of the income:
 - Borrower may have received a raise during the year.
 - Borrower may have taken some unpaid time off.
 - The start date on this job may not be as stated by the borrower.

6.6.1.5. **Income Calculation Methods**

How often is the borrower paid?	How to determine Monthly Income.
Annually	Annual gross pay/12 months
Monthly	Use monthly gross payment amount
Twice Monthly	Twice monthly gross pay x 2 pay periods

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Bi-Weekly	Bi-Weekly Gross Pay x 26 pay periods/ 12 months
Weekly	Weekly gross pay x 52 weeks/12 months
Hourly	Hourly gross pay x # of hours worked per week x 52 weeks/ 12 months, or if variable averaged over a minimum of 24 months.

6.6.1.6. Teachers

Teachers may be paid on a 12- month per year pay schedule, or they may be paid 9, 10 or 11 times per year. If the paystub does not indicate a pay schedule, contact the school district to verify the pay schedule.

6.6.1.7. Bonus Income

Bonus income is acceptable if there is a documented 2-year consecutive history.

- Use the average of most the recent 2 years if the trend is consistent or moderately increasing.
- For significant increase or decrease, an average of more than 2 years must be used to calculate income.

Note: A signing bonus may not be considered as qualifying income.

6.6.1.8. Business Expenses

For a borrower who is qualified using base pay, bonus, overtime, or commission income less than 25% of the borrower's annual employment income:

- Union dues and other voluntary deductions identified on the borrower's paystub do not need to be deducted from the borrower's income or treated as a liability.
- The Guide now clearly states that tax returns are not required to document these sources of income.

6.6.1.9. Commission Income

See [Commission Income](#) detail in Income Sources.

6.6.1.10. Overtime Income

Overtime income is acceptable if there is a documented 2-year consecutive history of receipt.

- Use the average of the most recent 2 years if the trend is consistent or moderately increasing.
- If income shows a continual decline, the Underwriter must provide and document a sound rationalization for including the income for qualifying.
- For significant increase or decrease, an average of more than 2 years must be used to calculate income.



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6.6.2. Self-Employment

A borrower is considered self-employed if he/she owns 25% or more of the business. There are circumstances where borrowers may be considered self-employed if they own less than 25% of a business.

Example:

In partnerships with each of five general partners owning 20%, the borrower is considered self-employed if this 20% ownership is the borrower's major source of income.

The completed [Tax Analysis Income Calculation \(TAIC\)](#) tool must be included in the file for all self-employed borrowers.

Note: The TAIC must be completed for borrowers paid via W2 if they own more than 25% of a business.

The following factors must be analyzed before approving a mortgage for a self-employed borrower:

- The stability of the borrower's income,
- The location and nature of the borrower's business,
- The demand for the product or service offered by the business,
- The financial strength of the business, and
- The ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage.

6.6.2.1. Income not needed to Qualify

Self-employment income (profit or loss) not being used for qualifying does not need to be analyzed or evaluated when:

- Borrower has a primary source of income, other than self-employment, used for qualifying the mortgage (e.g., salaried income from primary employment), AND
- Is self-employed and the self-employment income is a secondary source of income.

6.6.2.2. Income Analysis

The calculation of a self-employed borrower's average monthly income must be based on a review of the complete, signed individual federal tax returns including W-2's and K-1's (if applicable) as well as the complete, signed business tax returns (Forms 1120, 1120s and 1065), when applicable. Follow AUS guidance for the number of years required.

- Complete the income analysis using the Tax Analysis Income Calculator (TAIC).
- An average monthly income must be developed utilizing a combination of tax returns.



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Increases or decreases in income

- If the analysis reflects that the borrower's income has significantly increased or decreased, the loan file must contain sufficient documentation and justification to support the determination that the income used to qualify the applicant is stable and likely to continue for the next 3 years.
- If the earnings trend is downward and the most recent tax return is less than the prior year's tax return, the borrower's most recent year's tax return must be used to calculate his/her income.

Documentation Requirements:

Type	What to document:
Sole proprietorship/Independent Worker	<ul style="list-style-type: none"> • Follow AUS or most recent two (2) years tax returns with all Schedules. • Profit and Loss (see below). • 1099 forms. • A year-to-date pay stub covering the most recent 30-day period. • A copy of the current contract. • Reasonable expectation that income will continue for at least three years of the loan.
Corporation (If ownership > 25%)	<ul style="list-style-type: none"> • Follow AUS or most recent two (2) years personal tax returns. • Follow AUS or most recent two (2) years corporate tax returns. • W-2 forms. • Profit and Loss (see below).
Partnership (If ownership > 25%)	<ul style="list-style-type: none"> • Follow AUS or most recent two (2) years personal tax returns. • Follow AUS or most recent two (2) years partnership tax returns with K-1 forms. • Profit and Loss (see below).

Profit & Loss Statement/Balance Sheet Requirements

A profit and Loss Statement is required when there is a substantial decline in the borrower's income from one year to another, or the borrower has less than two years self-employment.

Additionally, if income used to qualify the borrower exceeds the two-year average of tax returns, an audited P & L by an independent 3rd party is required. If applicable, signed quarterly tax returns obtained from the IRS may be used.

6.6.2.3. History of Self Employed

Income from self-employment may be considered stable if the borrower has been self-employed two or more years. Stable income is the average income for the previous two years.

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Less than one-year history

Income from a self-employment of less than one year may not be considered effective income.

6.6.2.4. Verification of Self Employment

Verification of a self-employed borrower's employment and income may be obtained from the borrower copies of signed federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS for the past two years (with all applicable schedules attached).

Alternatively, the lender may use IRS-issued transcripts of the borrower's individual and business federal income tax returns that were filed with the IRS for the most recent two years as long as the information provided is complete and legible and the transcripts include the information from all of the applicable schedules.

The requirement for business tax returns may be waived if:

- The borrower is using his or her own personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements,
- The borrower has been self-employed in the same business for at least five years, and
- The borrower's individual tax returns show an increase in self-employment income over the past two years.

When a salaried (or commissioned) borrower and a self-employed co-borrower jointly apply for a mortgage and the self-employed co-borrower's income will not be used for qualifying purposes, the self-employed co-borrower's last two years of complete individual and business tax returns or other financial information related to the business are not required. Instead, the self-employed co-borrower may provide a copy of the first page of his or her latest individual federal income tax return, which will enable the MWF to determine whether there was a meaningful business loss by performing at least one of the following:

- Determine there is not a meaningful business loss, in which case no additional action or documentation is required.
- Reduce the salaried income being used to qualify by the amount of the reported loss, in which case additional documentation is not required.
- Obtain the most recent year complete individual and business tax returns to determine if there was a meaningful loss after adjusting for non-recurring or non-cash expenses. If after evaluation, the lender determines there is a meaningful business loss, the qualifying income must be reduced by the amount of the meaningful business loss; or
- Decide that it needs to request additional information about the self-employed co-borrower's business income in order to determine whether there is an impact on qualifying income.



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6.6.2.5. Limited Liability Company (LLC)

Income from partnerships, LLC's, estates, and Trusts can **only** be used from qualifying with the following documentation, Schedule K-1's, IRS Form 1065 or IRS Form 1120s.

Documentation must verify that:

- The income was **actually** distributed (LINE 19 of K-1's) to the borrower, **or**
- The business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

When determining the business has adequate liquidity to support the withdrawal of earnings, one of the following ratio calculations must be used:

- **Quick Ratio** (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.
 - Quick Ratio = (current assets minus inventory) divided by current liabilities.
- **Current Ratio** (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.
 - Current Ratio = current assets divided by current liabilities.

For either, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

A limited liability company (LLC) is a hybrid business structure that is designed to offer its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation. Profits from the operation of the LLC may be distributed beyond the pool of member-owners, such as by offering profit distributions to managers.

The LLC may report its profit or loss on IRS Form 1065 or IRS Form 1120S with each member-owner's share of the profit or loss on Schedule K-1, IRS Form 1065 or IRS Form 1120S; however, the LLC pays no tax on its income. Each member-owner uses the information from Schedule K-1 to report his or her share of the LLC's net profit or loss (and special deductions and credits) on his or her individual IRS Form 1040, whether or not the member-owner receives a cash distribution from the LLC. Individual member-owners pay taxes on their proportionate share of the LLC's net income at their individual tax rates.

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6.6.2.6. S Corporations

An S corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. An S corporation has many of the characteristics of a partnership. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.

The ordinary income for an S corporation is reported on IRS Form 1120S, with each shareholder's share of the income reported on IRS Form 1120S, Schedule K-1.

Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, MWF must determine if the borrower received a cash distribution from the S corporation.

The cash flow of an S corporation is otherwise evaluated similarly to that of a regular corporation.

6.6.3. Variable Income

While fluctuations in income, particularly from variable sources such as bonus, overtime or commission, is expected, if there is a significant increase or decrease in income, the loan file must contain all of the following:

- A reason for the increase or decrease from the applicant or employer
- Supporting rationale for the inclusion of such income
- The calculation method used

Trends in the borrower's industry should be considered in the evaluation of stability of income.

Significant Decrease

One-time occurrence: If the borrower's income shows a significant decrease related to a one-time occurrence (e.g. injury, leave of absence to care for ill family member, etc.) that prevented the borrower from working or earning full income for a period of time, the variable income can be averaged using a previous higher level provided there is:

- Proof that the income has returned to the level previously earned
- Documentation to support the one-time occurrence

When the significant decrease in income is not attributed to a one-time event, the analysis must include the underwriting rationale for the inclusion of such income.

Significant Increase

The higher income may not be used to qualify the borrower, unless there is sufficient documentation to determine the increase is stable and likely to continue at the level used for qualifying.

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6.6.4. Grossing-Up Non-Taxable Income**Fannie Mae - DU**

Regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments, and food stamps must be analyzed.

Verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the lender may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% of the borrower's nontaxable income, the lender may use that amount to develop the adjusted gross income, which should be used in calculating the borrower's qualifying ratio.

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A history of receipt is not required, and continuance must be likely to continue to remain.

To determine the amount to adjust (i.e., "gross-up") the Borrower's income, use:

- 25% of the tax-exempt portion of the income or
- The current federal and state income tax withholding tables

Obtain complete federal individual income tax returns for the most recent one-year period or other documentation evidencing that the income, or a portion of the income, is tax exempt.

6.6.4.1. Grossing-Up Utilizing Tax Tables

- Use the "Monthly" payroll period from the tax table.
- Be sure to use the correct status – Single or Married.
- Determine which "range" the Non-Taxable income falls within.
- Utilize the % listed in the range corresponding to the amount of Non-Taxable income to determine what rate to gross-up by.



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TABLE 4—MONTHLY Payroll Period							
(a) SINGLE person (including head of household)—				(b) MARRIED person—			
If the amount of wages (after subtracting withholding allowances) is:				If the amount of wages (after subtracting withholding allowances) is:			
The amount of income tax to withhold is:				The amount of income tax to withhold is:			
Not over \$183 \$0				Not over \$692 \$0			
Over—	But not over—		of excess over—	Over—	But not over—		of excess over—
\$183	—\$927 . .	\$0.00 plus 10%	—\$183	\$692	—\$2,179 . .	\$0.00 plus 10%	—\$692
\$927	—\$3,204 . .	\$74.40 plus 15%	—\$927	\$2,179	—\$6,733 . .	\$148.70 plus 15%	—\$2,179
\$3,204	—\$7,504 . .	\$415.95 plus 25%	—\$3,204	\$6,733	—\$12,892 . .	\$831.80 plus 25%	—\$6,733
\$7,504	—\$15,454 . .	\$1,490.95 plus 28%	—\$7,504	\$12,892	—\$19,279 . .	\$2,371.55 plus 28%	—\$12,892
\$15,454	—\$33,379 . .	\$3,716.95 plus 33%	—\$15,454	\$19,279	—\$33,888 . .	\$4,159.91 plus 33%	—\$19,279
\$33,379	—\$33,517 . .	\$9,632.20 plus 35%	—\$33,379	\$33,888	—\$38,192 . .	\$8,980.88 plus 35%	—\$33,888
\$33,517	\$9,680.50 plus 39.6%	—\$33,517		\$38,192	\$10,487.28 plus 39.6%	—\$38,192	

Example

Borrower has \$3,000 per month in non-taxable social security earnings and is married.

In reviewing the chart above, the non-taxable income falls within the range of \$2,179 and not over \$6,733.

The corresponding % used to gross-up the income is 15%.

\$3000. X 15% = \$450, which is the amount that can be added to the non-taxable income, for a total of \$3,450 in qualifying income. ONLY USE THE %. DO NOT ADD THE ADDITIONAL DOLLARS.

In this example, use .15 in the TAIC to calculate the grossed-up income.

Note: The gross-up % may never exceed 25%, regardless of non-taxable income.

6.6.5. W2 Transcripts

When using only W-2 income to qualify the borrower, W-2 transcripts are not required. This does not include #1099 income; transcripts are still required. An executed IRS 4506-T is required for all borrowers at closing.

6.6.6. Business Tax Transcripts

Fully complete and signed 4506-T(s) are required for each business tax return used to underwrite the loan.

- Extensions for Business Tax Returns for the most recent year require that IRS Forms 7004 and 4506-T reflect that "NO Transcripts Available."
- If the borrower is self-employed and self-employed income was not used to qualify, the 1st page of the most recent personal federal tax return is required to confirm that there were no business losses.



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6.7. Income Sources

6.7.1. Alimony, Child Support & Maintenance Income

In order to be used as income, child support, alimony or maintenance payments must be reasonable and expected to continue for at least a three-year period. The following documentation is required:

- Copy of the final divorce decree, legal separation agreement or court order; and
- Copies of court records, bank statements or canceled checks evidencing a minimum of six months receipt of payments.

6.7.2. Annuity

In order to be used as income, Annuity payments must be expected to continue for at least a three-year period. The following documentation is required:

- Evidence of the balance of the annuity, monthly payments and the term of the payments being paid to the borrower.
- If the annuity is to be established, document the terms of the withdrawal from the annuity, and the likelihood of its continuance for the next three years.

Note: If the Annuity is being used as qualifying income, do not use Interest/Dividend that is derived from the annuity.

6.7.3. Employment Related Assets used as Income (Asset Depletion)

6.7.3.1. Fannie Mae

Assets derived from employment related activities may be used for the calculation of a monthly income stream use for qualification purposes. A borrower shall only be considered to have unrestricted access if the borrower has, as of the time of calculation, unqualified and unlimited right to request a distribution of all funds. The assets must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loan.

Assets must be liquid and available to the borrower with no penalty and must be sourced as one of the following:

- A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) must be documented with a distribution letter from the employer (Form 1099-R) and deposited to a verified asset account.
- For 401(k) or IRA, SEP, Keogh retirement accounts – the borrower must have unrestricted access to the funds in the account if distribution is not already set up or the distribution amount is not enough to qualify. The account must be documented with the most recent monthly, quarterly, or annual statement.



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If the employment–related assets are in the form of stocks, bonds, and mutual funds, 70% of the value (remaining after costs for the transaction) must be used to determine the income stream to account for the volatile nature of these assets.

On the “Net documented assets” are used to determine the income used for qualification purposes. Net documented assets are equal to:

- The sum of all eligible assets minus any funds that will be used for closing or required reserves.
- Minus 30% of the remaining value of any stocks, bonds, or mutual funds assets (after the calculation above).
- The amount of any penalty that would apply if the account was completely distributed at the time of calculation.
- Divide “Net Documented Assets” by 240 months.

Example: Calculation

Checking and savings accounts (for illustration purposes only – not an eligible employment-related asset)	40,000
IRA (made up of stocks and mutual funds)	+500,000
Total eligible documented assets	540,000
Funds required for closing (Down payment, closing costs, reserves)	(100,000)
(a) Remaining IRA assets (\$500,000 – \$60,000 used at closing)	440,000
(b) Minus 30% of \$440,000 (\$440,000 x .30)	(132,000)
Net Documented Assets \$308,000	308,000
Monthly income calculation (\$308,000/240 months)	1,283.33 p/Month

6.7.3.2. Ineligible Assets

Ineligible assets are non-employment-related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and savings accounts are generally not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from an eligible employment-related asset (for example, a severance package or lump sum retirement distribution).

6.7.3.3. Additional Requirements

All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

Parameter	Requirement
Maximum LTV/CLTV/HCLTV	70%



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Parameter	Requirement
	80% for loans where the asset owner is at least 62 years old at the time of the loan closing. If the asset(s) is jointly owned, all owners must be borrowers on the loan and the borrower whose employment related asset is being used as income must be at least 62 years old at the time of closing.
Minimum Credit Score DU:	620 Standard: Higher of 620 or minimum Credit Score per the <i>Eligibility Matrix</i>
Loan Purpose	Purchase and limited cash-out refinance only
Occupancy	Principal residence and second home only
Number of units	One- to four-unit properties

Note: If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines, such as "Interest and Dividends Income," or "Retirement and Pension Income."

6.7.3.4.

Freddie Mac

Assets that will be used by the Borrower for the repayment of their monthly obligations may be used to qualify the Borrower for the Mortgage, provided that, regardless of the underwriting path of the Mortgage, the requirements of this section are met.

Note: Feature Identifier - H31 must be used.

Mortgage eligibility requirements

The assets described in this Section may only be used to qualify the Borrower if the Mortgage meets all of the following requirements:

- The Mortgage is secured by a 1- or 2-unit Primary Residence or a second home
- The Mortgage is either a purchase transaction Mortgage, "no cash-out" refinance Mortgage
- The Mortgage has a maximum loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio of 80% unless the Mortgage is an Enhanced Relief Refinance Mortgage. Asset calculation for establishing the debt payment-to-income ratio

To determine the amount used to establish the debt payment-to-income ratio, MWF must use the net eligible assets (as described below), divided by 240. The amount of net eligible assets is calculated by subtracting the following from the total eligible assets:

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- Any funds required to be paid by the Borrower to complete the transaction (e.g., Down Payment and Closing Costs),
- Any gift funds and borrowed funds, and
- Any portion of assets pledged as collateral for a loan or otherwise encumbered

Asset eligibility and documentation requirements

The assets described below may be used to qualify the Borrower for the Mortgage, provided that the assets meet the following requirements:

Asset Type	Asset eligibility requirements	Streamlined Accept and Standard Documentation requirements
Retirement Assets	<ul style="list-style-type: none"> • The retirement assets must be in a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA) • Borrower must be the sole owner • The asset must not currently be used as a source of income by the Borrower • As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty or an additional early distribution tax • The Borrower's rights to the funds in the account must be fully vested 	<ul style="list-style-type: none"> • Most recent retirement asset account statement • Documentation evidencing asset eligibility requirements are met
Lump-sum distribution funds not deposited to an eligible retirement asset	<p>If the lump-sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement assets described above.</p> <ul style="list-style-type: none"> • Lump-sum distribution funds must be derived from a retirement account recognized by the IRS (e.g., 401(k), IRA) and must be deposited to a depository or non-retirement securities account • A Borrower must have been the recipient of the lump-sum distribution funds 	<ul style="list-style-type: none"> • Employer distribution letter(s) and/or check-stub(s) evidencing receipt and type of lump-sum distribution funds; IRS 1099-R (if it has been received) • Satisfactorily documented evidence of the following: <ul style="list-style-type: none"> ○ Funds verified in the non-retirement account and used for qualification must have been derived from eligible retirement assets ○ Lump-sum distribution funds must not have been or currently be subject to a



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	<ul style="list-style-type: none"> Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the funds from the lump-sum distribution The proceeds from the lump-sum distribution must be immediately accessible in their entirety The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty or early distribution tax 	penalty or early distribution tax
Depository accounts and Securities	<ul style="list-style-type: none"> The Borrower must solely own assets or, if asset is owned jointly, each asset owner must be a Borrower on the Mortgage and/or on the title to the subject property At least one Borrower who is an account owner must be at least 62 years old As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty Account funds must be located in a United States- or State-regulated financial institution and verified in U.S. dollars 	<ul style="list-style-type: none"> Streamlined Accept: Provide an account statement covering a one-month period or a direct account verification (i.e., VOD) Standard Documentation: Provide account statement(s) covering a two-month period or a direct account verification (i.e., VOD) OR, regardless of the Documentation Level: For securities only, if the Borrower does not receive a stock/security account statement <ul style="list-style-type: none"> Provide evidence the security is owned by the Borrower, and Verify value using stock prices from a financial publication or web site Documentation evidencing asset eligibility requirements are met Sourcing deposits: <ul style="list-style-type: none"> MWF must document the source of funds for any deposit exceeding 10% of the Borrower's total eligible assets in depository accounts and securities, and verify the deposit does not include gifts or borrowed funds, or reduce the eligible assets used to qualify the Borrower by the amount of the deposit



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		<ul style="list-style-type: none"> ○ When the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the Mortgage file, MWF is not required to obtain additional documentation
Assets from the sale of the Borrower's business	<ul style="list-style-type: none"> • The Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account • Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the proceeds from the sale of the Borrower's business • The proceeds from the sale of the business must be immediately accessible in their entirety • The sale of the business must not have resulted in the following: retention of business assets, existing secured or unsecured debt, ownership interest or seller-held notes to buyer of business 	<ul style="list-style-type: none"> • Most recent three months' depository or securities account statements • Fully executed closing documents evidencing final sale of business to include sales price and net proceeds • Contract for sale of business • Most recent business tax return prior to sale of business • Satisfactorily documented evidence of the following: <ul style="list-style-type: none"> ○ Funds verified in the non-retirement account and used for qualification must have been derived from the sale of the Borrower's business

6.7.4. Automobile Allowance

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two years.

There are two methods for calculating the income associated with an automobile allowance:

- **Actual cash flow approach:** If the borrower reports automobile allowances on Employee Business Expenses (IRS Form 2106) or IRS Form 1040, Schedule C:
 - Funds in excess of the borrower's monthly expenditures are added to the borrower's monthly income, or
 - Expenses in excess of the monthly allowance are included in the borrower's total monthly obligations.
- **Income and debt approach:** If the borrower does not report the allowance on either Form 2106 or Schedule C, the full amount of the allowance is added to the borrower's monthly income, and the full amount of the lease or

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financing expenditure for the automobile is added to the borrower's total monthly obligations.

- Income in excess of the associated liability may be used for qualification purposes as long as:
 - Underwriter can document that there is no lease or payments associated with the allowance.
 - Borrower provides an LOE stating that there are no financial obligations associated with the allowance that they are aware of.

6.7.5. Capital Gains Income

Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be documented with a two-year history as evidenced on IRS Form 1040, Schedule D.

Capital Losses that are identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.

6.7.6. Commission Income

Commission income is acceptable if there is a documented 2-year consecutive history of receipt and must be likely to continue for the next 3 years.

- Use the average of most recent 2 years if the trend is consistent or moderately increasing.
- Use the average of most recent 1 year if the trend is moderately decreasing.

6.7.7. Virtual/Cryptocurrency

- Income paid to the Borrower in virtual/cryptocurrency may not be used to qualify for the mortgage.
- For income types that require evidence of sufficient remaining assets to establish likely continuance (e.g., retirement account distributions, trust income and dividend and interest income, etc.), those assets may not be in the form of virtual/cryptocurrency.
- The payment used as rental income must be in U.S. dollars, virtual/cryptocurrency is unacceptable.

6.7.8. Dividend Income

This taxable/tax-exempt income may be added back to the adjusted gross income only if it:

- Has been received for the past two years, and
- Is expected to continue.



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If the asset will be liquidated as a source of the cash investment, the lender must appropriately adjust the amount.

Document a two-year history of the income, as verified by:

- Copies of the borrower's signed federal income tax returns
- Develop an average of the income received for the most recent two years.

6.7.9. Employment Offers or Contracts - DU

If the borrower is scheduled to begin employment under the terms of an employment offer or contract, the loan may be closed in accordance with one of the options outlined below.

Option 1 Paystub Obtained Before Loan Delivery
<p>An executed copy of the borrower's offer or contract for future employment and anticipated income must be obtained.</p> <p>A paystub from the borrower that includes sufficient information to support the income used to qualify the borrower based on the offer or contract must be obtained.</p>
Option 2 Paystub not Obtained Before Loan Delivery
<p>This option is limited to loans that meet the following criteria:</p> <ul style="list-style-type: none"> • Purchase Transaction • Principal Residence • One Unit Property • The borrower is not employed by a family member or by an interested party to the transaction, and • The borrower is qualified using only fixed based income.
<p>Must obtain and review the borrower's offer or contract for future employment. The employment offer or contract must:</p> <ul style="list-style-type: none"> • Clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower. • Clearly identify the terms of employment, including position, type and rate of pay, and start date; and • Be non-contingent. NOTE: If conditions of employment exist, the lender must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file. <p>Also note that for a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoremen, or stagehand), the union may provide the executed employment offer or contract for future employment</p>
<p>The borrower's start date must be no earlier than 30 days prior to the note date or no later than 90 days after the note date.</p> <p>The following documentation must be obtained depending on the borrower's employment start date:</p>

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If the borrower's start date is . . .	Documentation Required
The note date or no more than 30 days prior to the note date.	Employment Offer or contract, and Verbal Verification of employment that confirms active employment status.
No more than 90 days after the note date.	Employment Offer or Contract
<p>In addition to the amount of reserves required by DU or for the transaction, one of the following is also required:</p> <ul style="list-style-type: none"> • Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months • OR • Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month. <p>Financial resource may include:</p> <ul style="list-style-type: none"> • Financial reserves, and • Current Income <p>Current income refers to net income that is currently being received by the borrower (or co -borrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer of contract. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, but a verification of employment is not required.</p>	
Special Feature Code 707 is required.	

6.7.10. Employment Offers or Contracts - LPA

Income commencing after the Note Date for Borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income, provided that either all requirements for option one, or all requirements for option two in the following table are met.



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Subject	Option One	Option Two
Eligible Employment and Income	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> Income must be from new primary employment, or a future salary increase with the current primary employer Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction 	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> Income must be from new primary employment Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction As of the Delivery Date, the income must be no less than that used to qualify the Borrower for the Mortgage
Start date of the new employment or future salary increase, as applicable	<ul style="list-style-type: none"> Must be no later than 90 days after the Note Date May be before or after the Delivery Date 	<ul style="list-style-type: none"> No limit on the number of days after the Note Date Must be before the Delivery Date
Eligible Loan Purpose	<p>The Mortgage must be originated for one of the following purposes:</p> <ul style="list-style-type: none"> Purchase transaction "No cash-out" refinance 	<p>The Mortgage must be originated for one of the following purposes:</p> <ul style="list-style-type: none"> Purchase transaction "No cash-out" refinance Cash-out refinance
Eligible Mortgaged Premises	<p>The Mortgaged Premises must be a 1-unit Primary Residence</p>	<p>The Mortgaged Premises must be one of the following:</p> <ul style="list-style-type: none"> 1- to 4-unit Primary Residence Second home 1- to 4-unit Investment Property

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Subject	Option One	Option Two
Verification of Additional Funds	<p>In addition to funds required to be paid by the Borrower and Borrower reserves, the Seller must verify additional funds in the Borrower's depository and/or securities account(s) that equal or exceed the amount of the monthly housing expense, and other monthly liabilities, due between the Note Date and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for the purpose of this calculation.</p> <p>The amount of the required additional funds may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to earn during the period described above, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase.</p>	
Required Documentation	<p>The following documentation is required:</p> <ul style="list-style-type: none"> • Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that: <ul style="list-style-type: none"> ○ Is fully executed and accepted by the Borrower ○ Is non-contingent or provide documentation, such as a letter or e-mails from the employer verifying all contingencies have been cleared, and ○ Includes the terms of employment, 	<p>The following documentation is required:</p> <ul style="list-style-type: none"> • Copy of the employment offer letter or employment contract that: <ul style="list-style-type: none"> ○ Is fully executed and accepted by the Borrower, and ○ Includes the terms of employment, including but not limited to, employment start date and annual income based on non-fluctuating earnings • Documentation of additional funds, as required above

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Subject	Option One	Option Two
	<p>including employment start date and annual income based on non-fluctuating earnings</p> <ul style="list-style-type: none"> • For a future salary increase provided by the Borrower's current employer, the above documentation must indicate that the increase is fully approved and is explicitly granted to the Borrower • A 10-day pre-closing verification (PCV) verifying the terms of the employment offer letter, contract or future salary increase have not changed • Documentation of additional funds, as required above 	

If the income commences prior to the Note Date or shipment of the loan, one of the following is required:

- A paystub
- A written Verification of Employment, or
- A Third-Party Employment Verification

6.7.11. Farm Income

MWF will lend on mixed use properties if it can be determined that the nature, intent, and primary purpose of the property is residential in use. The following should be considered in making this determination:

Total property ≤ 2 Acres

- The subject must be a single-family dwelling with a room layout for a residential home.

Total property > 2 Acres

- In general, the commercial use should not exceed 20% of total gross living area of the property or 20% of the total acreage.

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- The subject must be a single-family dwelling with a room layout for a residential home.
- Income generated on property used for agricultural purposes should be minimal, and not exceed 5% of the borrower's total gross income.
- The property must be appraised as residential real estate, with commercial/agricultural value not included in the appraiser's market value.
- The appraiser must comment on any affect the commercial/agricultural use has on marketability and compatibility with the subject's neighborhood.

6.7.12. Foreign Income

- Foreign Income is acceptable only if income can be verified on U.S. personal tax returns.
- Foreign income should be paid in U.S. currency; however, income paid in foreign currency may be considered on a case-by-case basis if it's converted into U.S. currency.

6.7.13. Foster-Care Income

Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:

- Verify the foster-care income with letters of verification from the organizations providing the income.
- Documented two-year history or receipt.
- If a two-year history is not available, the income may still be counted as stable income if:
 - The borrower has at least a 12-month history of providing foster-care services, and
 - The income does not represent more than 30% of the total gross income that is used to qualify for the mortgage loan.

6.7.14. Gambling Income

Earnings from gambling are not an acceptable source of income.

6.7.15. Installment Sales and Land Contracts Income**Secured:**

Evidence of receipt for the last 12 months of income from notes receivable or installment sales or land contracts is required in addition to a copy of the note verifying payment amount and remaining term of at least three years.

Unsecured:

Evidence of receipt for the last 12 months of income from unsecured notes receivable is required in addition to a copy of the note verifying payment amount and remaining term of at least three years.

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6.7.16. Interest and Dividends Income

Interest and dividend income may be used for qualifying as long as tax returns or account statements support a two-year receipt history. This income must be averaged over two years.

Funds derived from these sources that are required for the cash investment must be subtracted from the balance before calculating the projected interest or dividend income

6.7.17. Military Pay Income

Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as it is established that the source of income will continue to be received in the future.

Income paid to military reservists while they are satisfying their reserve obligations is also acceptable if it satisfies the same stability and continuity tests applied to secondary employment.

6.7.18. Mortgage Credit Certificates (MCC)

MCCs enable an eligible first-time home buyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.

When calculating the borrower's DTI ratio, treat the maximum possible MCC as additional income, rather than as a reduction to the amount of the borrower's mortgage payment.

Use the following calculation when determining the available income:

$$[(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%})] \div 12 = \text{Amount added to borrower's monthly income.}$$

For example, if a borrower obtains a \$100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be \$125 ($\$100,000 \times 7.5\% \times 20\% = \$1500 \div 12 = \$125$).

6.7.19. Notes Receivable Income

Verify that the income can be expected to continue for a minimum of three years from the application date.

- Obtain a copy of the note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12 months.

Note: Payments on a note executed within the past 12 months, regardless of the duration, may not be used as stable income.

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6.7.20. Parsonage Income

Parsonage income is a housing allowance for clergy and other church professionals that may be used as qualifying income. Document the income has been received for the prior 12 months and is likely to continue for the next three years.

6.7.21. Public Assistance Income

Document the borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments. Confirm that the income can be expected to continue for a minimum of three years from the date of the mortgage application.

The Housing Choice Voucher Program (more commonly known as Section 8) is also an acceptable source of qualifying income. There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.

6.7.22. Rental Income – Fannie Mae

Rental Income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following:

- A two-to-four-unit principal residence property in which the borrower occupies one of the units, or
- A one-to-four-unit investment property.

If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements (it can be documented in accordance with the requirements below).

Note: The rental payment on the lease must be reflected in U.S. dollars. It cannot be in virtual currency.

6.7.22.1. Ineligible Properties

Generally, rental income from the borrower's principal residence (a one-unit principal residence or the unit the borrower occupies in a two-to-four-unit property) or a second home cannot be used to qualify the borrower.



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6.7.22.2. Documenting Rental Income

If a borrower has a history of renting the subject or another property, generally the rental income will be reported on the borrower's personal tax returns (Schedule E) or on Rental Real Estate income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the lender may be justified in using a fully executed current lease agreement.

Examples of scenarios that justify the use of a lease agreement are:

- Purchase transactions.
- Refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing: OR
- Refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (i.e., major renovation to a property occurred in the prior year that affected rental income).

When the subject property will generate rental income and it is used for qualifying purposes, one of the following Fannie Mae forms must be used to support the income earning potential of the property:

- For one-unit properties – Single Family Comparable Rental Schedule (Form 1007) provided in conjunction with the applicable appraisal report, or
- For two-to-four-unit properties – Small Residential Income Property Appraisal Report (Form 1025).

6.7.22.3. Documenting Rental Income from Subject Property

Documentation may vary depending on whether the borrower has a history of renting the property, and whether the prior year tax returns include the income.

Does the Borrower have a history of receiving rental income from the subject property?	Transaction Type	Documentation Requirements
Yes	Refinance	Form 1007 or Form 1025, as applicable, and either



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		The borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E, OR Copies of the current lease agreement(s) if the borrower can document a qualifying exception (see Partial or No Rental History on Tax Returns below).
No	Purchase	<p>Form 1007 or Form 1025, as applicable, AND Copies of the current lease agreement(s).</p> <p>If the property is not currently rented, lease agreements are not required, and Form 1007 or Form 1025 may be used.</p> <p>If there is a lease on the property that is being transferred to the borrower, the lender must verify that it does not contain any provisions that could affect Fannie Mae's first lien position on the property.</p>
No	Refinance	Form 1007 or Form 1025, as applicable, AND Copies of the current lease agreement(s).



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Note: If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented (i.e., #1007, Opinion of Market Rents provided by the appraiser).

6.7.22.4. Documenting Rental Income for Property Other Than the Subject Property

When the borrower owns property – other than the subject property – that is rented, monthly gross (and net) rental income must be documented with the borrower's most recent signed federal income tax return that includes Schedule 1 and Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception. See Reconciling Partial or No Rental History on Tax Returns below.

6.7.22.5. Reconciling Partial or No Rental History on Tax Returns

If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, qualifying rental income may be determined by using:

- Schedule E income and expenses, and annualizing the income (or loss) calculation: OR
- Fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

If . . .	Then . . .
The property was acquired during or subsequent to the most recent tax filing year,	<p>Purchase date must be confirmed using the settlement statement or other documentation.</p> <ul style="list-style-type: none"> • If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.
The rental property was out of service for an extended period,	<ul style="list-style-type: none"> • Schedule E will reflect the costs for renovation or rehabilitation as repair

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	<p>expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service.</p> <ul style="list-style-type: none"> • Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
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6.7.22.6. Calculating Monthly Qualifying Rental Income (or Loss)

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing a two-to-four-unit principal residence or one-to-four-unit investment property, the following must be considered:

If the borrower . . .	Then for qualifying purposes . . .
Does not own a principal residence, or Does not have a current housing expense	Rental income for the subject property cannot be used.
Currently owns a principal residence (or has a current housing expense), and Has at least a one-year history of rental income or documented property management experience. One year history of property management experience must be documented.	There is no restriction on the amount of rental income that can be used.
Currently owns a principal residence (or has a current housing expense), and Has less than one year history of receiving rental income or documented property management experience.	For a principal residence, rental income in an amount not exceeding the PITIA of the subject property can be added to the borrower's gross income, or For an investment property, rental income can only be used to offset the PITIA of the subject property.

A history of property management experience must be established by obtaining one of the following:

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- The borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365.
- If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return: or
- A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.

6.7.22.7. Method for Calculating the Income

The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.

Federal Income Tax Returns, Schedule E

When Schedule E is used to calculate qualifying rental income, the lender must add back any listed depreciation, interest, homeowner's association dues, taxes of insurance expenses to the borrower's cash flow. Nonrecurring property expenses may be added back if documented accordingly.

If the property was in service:

- For the entire tax year, the rental income must be averaged over 12 months, or
- For less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.

Lease agreements or Form 1007 or Form 1025

When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, calculate the rental income by multiplying the gross monthly rent(s) by 75% (this is referred to as "Monthly Market Rent" on Form 1007). The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.

6.7.22.8. Treatment of the Income (or Loss)

The amount of monthly qualifying rental income (or loss) that is considered as part of the borrower's total monthly income (or loss) – and its treatment in the calculation of the borrower's total debt to income ratio – varies depending on whether the borrower occupies the rental property as his or her principal residence.

If the rental income relates to the borrower's principal residence:

- The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. The income is not netted against the PITIA of the property.

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- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

If the rental income (or loss) relates to a property other than the borrower's principal residence:

- If the monthly qualifying rental income (as defined) above minus the full PITIA is positive, it must be added to the borrower's total monthly income.
- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
- The full monthly payment for the borrower's principal residence (full PITIA or monthly rent), must be counted as a monthly obligation.

6.7.22.9. Offsetting Monthly Obligations for Rental Property Reported through a Partnership or an S Corporation

If the borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report) and gross rents and related expenses are reported through a partnership or S Corporation, the business tax returns may be used to offset the property's PITIA.

The steps described below should be followed:

- Obtain the borrower's business tax returns, including IRS Form 8825 for the most recent year.
- Evaluate each property listed on Form 8825, as shown below:
 - From total gross rents, subtract total expenses. Then add back insurance, mortgage interest, taxes, homeowners' association dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly).
 - Divide by the number of months the property was in service.
 - Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow.
- If the resulting net cash flow is positive, the property PITIA may be excluded from the borrower's monthly obligations when calculating the debt-to-income ratio.
- If the resulting net cash flow is negative (that is, the rental income derived from the investment property is not sufficient to fully offset the property PITIA), the calculated negative amount must be included in the borrower's monthly obligations when calculating the debt-to-income ratio.

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In order to include a positive net rental income received through a partnership or an S corporation in the borrower's monthly qualifying income, guidelines for income received from a partnership or an S corporation must be followed.

Note: For DU loan casefiles, the term "subject net cash flow" applies to net rental income from the subject property, and the term "net rental income" applies to rental income from properties other than the subject property.

6.7.23. Rental Income – Freddie Mac (LPA)**6.7.23.1. General Eligibility Requirements**

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three years. For each income source used to qualify the Borrower, it must be determined that both the source and the amount of the income are stable.

6.7.23.2. Rental Income Eligibility

Rental income generated from the following property and occupancy types may be considered when documenting the stable monthly income:

- 1 – unit Primary Residence (rental income is eligible from a live in aide).
- 2 - 4 units Primary Residence (rental income is eligible from units that are not occupied by the Borrower)
- Subject 1 – 4-unit Investment property.
- Non subject: investment property owned by the Borrower (not restricted to residential property (e.g., commercial permitted)).

6.7.23.3. Accessory Units

When determining stable monthly income, rental income generated from an accessory unit may be considered for:

- Subject 1 – unit Investment Property
- Non-Subject Invest Property

6.7.23.4. Second Homes

Rental income generated from the Borrower's second home may not be used as stable monthly income.

6.7.23.5. Rental Income from the Borrower's 1 – unit Primary Residence

The following chart contains requirements related to rental income from a Borrower's 1 – unit Primary Residence:

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Eligibility	Rental income generated from the Borrower's 1 – unit Primary Residence, including rental income from an accessory unit, may be used to qualify a Borrower with a disability provided the rental ins from a live in aide. Typically, a live in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the Borrower.
Documentation	Evidence that the Borrower has received stable rental income from a live in aide for the most recent 12 months.
Qualification	The rental income may be considered in an amount up to 30% of the total stable monthly income that is used to qualify the Borrower for the mortgage.

6.7.23.6. Rental Income from the Borrower's 2 - 4-unit Primary Residence, subject `1 – 4-unit Investment Property and non-subject investment property.

This section contains requirements and guidance for the calculation, documentation, analysis, history and determination of stable monthly net rental income.

6.7.23.7. Net rental income calculation requirements

The following chart contains requirements pertaining to net rental income calculation.

Rental Income Source	Calculation requirements
Lease Forms 72 or 1000	75% of the gross monthly rent or gross monthly market rent. The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Schedule E	The net rental income for each individual property is determined based on the history of income and expenses reported on Schedule E. Calculate the net rental income from Schedule E using Form 92, Net Rental Income Calculations – Schedule E or a similar alternative form, as follows:

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	<p>Rents received:</p> <p>(-) Less total expenses</p> <p>Add back the following expenses:</p> <ul style="list-style-type: none"> + Insurance + Mortgage interest paid to banks, etc. + Taxes (real estate taxes only) + Depreciation and/or depletion + Homeowners association dues (if specifically reported as an expense) + One-time losses (e.g., casualty loss due to documented catastrophic events) + Non-cash deductions (e.g., amortization). <p>Result: Net rental income (calculated to a monthly amount)</p> <p>When calculating the net rental income for each individual property, the following expenses reported on Schedule E (and noted above) can only be added back if they are included in the payment amount being used to establish the debt payment to income ratio for that property: insurance, mortgage interest paid to banks, real estate taxes, homeowners association dues.</p>
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6.7.23.8. Appraisal form requirements documentation and analysis

The following chart contains requirements related to appraisal form documentation and analysis:

Topic	Requirements
Documentation	Subject 1 – unit Investment Properties: Form 1000, Single Family Comparable Rent Schedule

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	Subject 2 – 4 Unit Primary Residence and Subject 2 – 4-unit Investment Properties: Form 72, Small Residential Income Property Appraisal Report
Analysis	Analysis of the rental information must include, at a minimum, the following factors: Rental market viability and income producing potential for subject property Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, then: Determine if additional documentation is necessary to support income stability, and Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue.

6.7.23.9. Documentation History and Analysis

The following charts contain requirements and guidance for documentation, analysis, and history.

Topic	Subject property purchase transaction	Subject Property refinance transaction or non-subject property:
Documentation and analysis	<ul style="list-style-type: none"> A lease, if available, must be used to determine the net rental income. 	<ul style="list-style-type: none"> Purchased in the current calendar year; or Placed in service as a rental property in the current calendar year
Streamlined Accept and Standard Documentation Levels	<p>Reasonable determination must be made to determine lease availability, including review</p>	<p>Lease must be used to determine the net rental income; and</p> <ul style="list-style-type: none"> Form 72 or 1000 supporting the income reflected on the lease. <p>Or</p> <ul style="list-style-type: none"> Documentation (e.g., bank statements evidencing deposit



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	<p>of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method.</p> <p>Or</p> <ul style="list-style-type: none"> If a lease is not available, Forms 72 or 1000, as applicable, may be used to determine the net rental income 	<p>or electronic transfer of rental payments, cancelled rent checks) supporting two months of receipt of rental income.¹</p> <ul style="list-style-type: none"> Purchase date or conversion date, as applicable, must be documented. <p>¹Form 72 or 1000 is always required for the subject property.</p>
Lease Requirements	<p>Leases must be current and fully executed, with a minimum original term of one year. If the lease is documented as assigned from the property seller to the Borrower and is in the automatically renewable month to month phase of an original one-year (or longer) term lease, then a month-to-month term is acceptable.</p>	
Maximum eligible amount of net rental income	<ul style="list-style-type: none"> The Borrower must currently own a Primary Residence to use rental income to qualify when purchasing a new rental property in the current calendar year. In such instances, net rental income can only offset the principal, interest, taxes and insurance (PITI), and when applicable, mortgage insurance premiums, leasehold payments, homeowners' association dues (excluding unit utility charges) and payments on secondary financing (full monthly payment) of the new rental property. If the Borrower's current primary Residence is being converted to a rental property, net rental income can only offset the full monthly payment of that Primary Residence. If the net rental income exceeds the full monthly payment of the new rental property or the converted Primary Residence, as applicable, the excess rental income 	



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	<p>cannot be added to the Borrower's gross monthly income to qualify unless the file documentation demonstrates the Borrower has a minimum of one year investment property management experience.</p>
<p>Documentation</p> <p>Streamlined Accept and Standard Documentation Levels</p>	<p>Borrower's complete federal income tax returns including Schedule E for the most recent year must be obtained. Except as set forth below when use of a signed lease may be permitted, if the subject property has been owned for at least one year and income from the subject property is reported on the Borrower's federal income tax returns, Schedule E must be used to determine the net rental income or loss.</p> <p>A signed lease may be used if:</p> <ul style="list-style-type: none"> • The property was out of service for any time period in the prior year and the Schedule E supports this by a reduced number of days in use and reflects repair costs; or • The property was purchased later in the calendar year and the Schedule E supports this by a reduced number of days in use. <p>AND, in either of the above instances, additional documentation provided as follows:</p> <ul style="list-style-type: none"> • Form 72 or 1000 supporting the income reflected on the lease, OR • Documentation (e.g., bank statements evidencing deposit or electronic transfer of rental payments, cancelled rent checks) supporting two months of receipt of rental income.¹ <p>Unless the above requirements are met, a signed lease may not be used and the rental income or loss from the Schedule E must be used and annualized for qualifying purposes.</p> <p>¹ Form 72 or 1000 is always required for the subject property.</p>

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Lease Requirements	Leases must be current and fully executed, with a minimum original term of one year. If the lease is documented as assigned from the property seller to the Borrower and is in the automatically renewable month to month phase of an original one-year (or longer) term lease, then a month-to-month term is acceptable.
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6.7.24. Retirement/Pension Income

Document that the income is expected to continue for at least three years.

Document regular and continued receipt of the income, as verified by:

- Letters from the organizations providing the income,
- Copies of retirement award letters,
- Copies of signed federal income tax returns,
- IRS W-2 or 1099 forms, or
- Proof of current receipt.

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application.

- The borrower must have unrestricted access without penalty to the accounts; and
- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.

6.7.25. Royalty Payment Income

Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three years after the date of the mortgage application.

Obtain copies of the following:

- Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and
- Borrower's most recent two years signed federal income tax returns, including the related IRS Form 1040, Schedule E.

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6.7.26. Restricted Stock and Restricted Stock Units Subject to Performance-based Vesting Provisions (FREDDIE ONLY)**History of Receipt**

- Two years, consecutive
- To be considered for history of receipt, RS and RSU used for qualifying must be vested and been distributed to the Borrower from their current employer, without restriction.

Continuance

Must be likely to continue for at least the next three years

Documentation

All of the following:

- YTD pay stub(s) documenting all YTD earnings, including payout(s) of RS or RSU, W-2 forms for the most recent two calendar years and a 10-day PCV.

Or all of the following:

- Written VOE documenting all YTD earnings (including pay-outs of RS or RSU) as well as earnings for the most recent two calendar years, and a 10-day PCV. Employment and income verifications obtained through a third-party verification service provider are permitted, provided that the documentation clearly identifies and distinguishes the payout (s) of RS/RSU.

Additional documentation requirements applicable to all documentation levels:

The mortgage file must contain:

- Evidence the stock is publicly traded
- Documentation verifying that the vesting provisions are performance-based (e.g., RS and/or RSU agreement, offer letter)
- Vesting schedule(s) currently in effect detailing past and future vesting
- Evidence of receipt of previous year(s) payouts(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum include the number of vested shares or its cash equivalent distributed to the Borrower (pre-tax).

Calculation**RS and RSU subject to performance-based vesting provisions**

Based on the form in which vested RS or RSU are distributed to the Borrower (i.e., as shares or its cash equivalent), the underwriter must use the applicable method(s) below to calculate the monthly income:

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RS or RSU distributed as shares

Multiply the 52-week average stock price as of the Application Received Date by the total number of vested shares distributed (pre-tax) to the Borrower in the past two years, then divide by 24. (e.g., if 200 vested shares were distributed (pre-tax) in the past two years and the 52-week average stock price as of the application received date is \$10, multiply $200 \times \$10.00$ then divide by 24 = \$83.33 monthly income).

RS or RSU Distributed as Cash Equivalent

Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24.

6.7.27. RS & RSU Subject to Time-Based Vesting Provisions**History of Receipt**

- One year
- To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their current employer, without restriction.

Continuance

Must continue for at least the next 3 years

Documentation

All of the following:

- YTD paystub(s) documenting all YTD earnings including payout(s) of RS or RSU, W-2 form for the most recent calendar year, and a 10-day PCV.

Or all of the following:

- Written VOE documenting all YTD earnings (including payout(s) of RS or RSU as well as earnings for the most recent calendar year, and a 10-day PCV. Employment and income verifications obtained through a third-party verification service provider are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU.

Additional documentation requirements applicable to all documentation levels:

The mortgage file must contain:

- Evidence the stock is publicly traded
- Documentation verifying that the vesting provisions are time-based (e.g., RS and/or RSU agreement, offer letter)
- Vesting schedule(s) currently in effect detailing past and future vesting
- Evidence of receipt of previous year's payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum,

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include the number of vested shares or its cash equivalent distributed to the Borrower (pre-tax).

Calculation**RS and RSU subject to time-base vesting provisions**

Based on the form in which vested RS or RSU are distributed to the borrower (i.e., as shares or its cash equivalent), the underwriter must use the applicable method(s) below to calculate the monthly income:

RS or RSU distributed as shares

Multiply the 52-week average stock price as of the Application Received Date by the number of vested shares distributed (pre-tax) to the borrower in the past year, then divide by 12. (e.g., if 50 vested shares were distributed (pre-tax) in the past year and the 52-week average stock price as of the Application received date is \$10.00, multiply $50 \times \$10.00$ then divide by 12 = \$41.67 monthly income).

RS or RSU distributed as cash equivalent

Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.

6.7.28. Seasonal Employment and Income

Borrower(s) with seasonal employment may still be considered for a loan and seasonal income may be used to qualify the borrower, with the following documentation being provided:

- Proof borrower(s) have been in the same line of work for the past two years.
- Expects to be rehired the next season with a VOE from employer indicating borrower will be returning to work. Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower. See Unemployment Income section for more information. Borrower(s) do not have to be back on the job at time of closing if all of the above is met.

Examples of seasonal employment include:

- Farm worker.
- Umpiring of baseball games in the summer.
- Working at a department store during the holiday shopping season.

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6.7.29. Secondary Employment Income

Verification of a minimum history of two years of uninterrupted secondary employment income is recommended. However, income that has been received for a shorter period of time (no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.

A borrower may have a history that includes different employers, which is acceptable as long as income has been consistently received.

Document secondary income by obtaining all of the following:

- VOE
- Borrower's most recent paystub and IRS W-2 forms covering the most recent two-year period.

6.7.30. Social Security Income

Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue. Documentation requirements:

- Award letter or proof of current receipt

6.7.30.1. Survivor Benefits

If the benefits are being paid as part of social security survivor benefits, documentation must also include confirmation that the benefits will continue for at least three years (i.e., verification so the beneficiary's age).

6.7.31. Temporary Agency Employee

Temporary employment may be considered when the borrower works through an agency (or agencies) and has demonstrated this to be a stable form of income. The borrower must have worked steadily as a temporary employee for a minimum of 24 months.

6.7.32. Temporary Leave/Short Term Disability Income

Temporary Leave/Short Term Disability is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

- The borrower must provide written confirmation of their intent to return to work.
- MWF will confirm the agreed-upon return-to-work date by obtaining documentation from the employer evidencing such date. An acceptable source of documentation includes Employer/Employee correspondence that specifies the duration of the leave or expected return-to-work date.



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The following table provides the steps necessary in determining qualifying income and borrower's capacity to meet obligations while on temporary leave.

Note: Under no circumstances should the borrower or anyone associated with the borrower, such as a doctor, be asked to identify the condition or disability of the borrower.

Returning to their current employer prior to the first mortgage payment due date:	
Qualifying Income	Required Documentation
Gross monthly income that will be received upon the borrower's return to current employer may be used.	<ul style="list-style-type: none"> Borrower's statutory right to return to work (or the employer's commitment to permit the borrower to return to work) and Borrower's confirmed date of return, and Borrower's post-leave employment and income and Written statement signed by the borrower confirming that the borrower will return to current employer and stating the confirmed date of return that has been agreed upon between the borrower and the employer. VVOE to confirm the borrower is currently on temporary leave. Copy of paystub will be obtained by Post Closing.
Returning to their current employer after the first mortgage payment due date:	
Qualifying Income	Required Documentation
Qualifying income must be the lesser of the following: <ul style="list-style-type: none"> Gross amount that will be received upon the borrower's return to current employer or the borrower's gross monthly income being received for the duration of the temporary leave (zero qualifying income if no income) 	<ul style="list-style-type: none"> Documentation evidencing amount, duration and consistency of all temporary leave income sources being used to qualify the borrower (e.g., short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer) that are being received during the temporary leave. Borrower's statutory right to return to work (or the employer's commitment to permit the borrower to return to work). Borrower's confirmed date of return. Borrower's post-leave employment and income. Written statement signed by the borrower confirming that the borrower will return to current employer and stating the confirmed date of return that has been agreed upon between the borrower and the employer. All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet the requirements and be verified. Written rationale explaining the analysis used to determine the qualifying income.

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Returning to their current employer prior to the first mortgage payment due date:	
Qualifying Income	Required Documentation
<p>received during leave).</p> <p>In the event that the income has been reduced or interrupted, available liquid assets may be used as a partial or complete income supplement up to the amount of the income reduction.</p>	

Supplemental Income

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income.

- Available liquid reserves: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
- Number of months of supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income, rounded up to the next whole number. After determining the supplemental income, the lender must calculate the total qualifying income.

Total qualifying income = supplemental income plus the temporary leave income.

Note: The total qualifying income that results may not exceed the borrower's regular employment income.

Example

Regular income amount: \$6,000 per month
 Temporary leave income: \$2,000 per month
 Total verified liquid assets: \$30,000
 Funds needed to complete the transaction: \$18,000
 Available liquid reserves: \$12,000
 First payment date: July 1
 Date borrower will begin receiving regular employment income: November 1

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Supplemental income: $\$12,000/4 = \$3,000$

Total qualifying income: $\$3,000 + \$2,000 = \$5,000$

6.7.33. Voluntary Temporary Leave of Absence

When a borrower chooses to take a temporary voluntary leave of absence and is not paid for the leave of absence, the most conservative approach will be used in calculating the income. The time off will be used in the average (when applicable) when calculating income. If there is sufficient documentation to determine stability of income, then the time off will be deducted from the income average when calculating income.

Note: Current income should be consistent with past years.

6.7.34. Tip Income

Tip income may be used to qualify the borrower if the lender verifies that the borrower has received it for the last two years.

Obtain the following documents:

- A complete Verification of Employment
- The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.

The lender must determine the amount of tip income that may be considered in qualifying the borrower.

In some cases, the full amount of the tip income earned by the borrower may not be reported by the employer on the Form 1005, paystub and W-2 form. However, the borrower may report additional tip income to the IRS using Form 4137, Social Security and Medicare Tax on Unreported Tip Income, when filing his or her tax returns. Fannie Mae will allow this tip income to be used in qualifying if the lender obtains the most recent two years of federal income tax returns with Form 4137.

6.7.35. Trust Income

Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments.

Verify that the trust income will continue for at least three years from the date of the mortgage application.

Unless this income is received monthly, documentation of current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy.

6.7.36. Unemployment Income

Document that the borrower has received the payments consistently for at least two years by obtaining copies of signed federal income tax returns.

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Unemployment compensation cannot be used to qualify the borrower unless it is clearly associated with seasonal employment that is reported on the borrower's signed federal income tax returns.

6.7.37. Union Members

Borrowers who work in occupations that result in a series of short-term job assignments (such as a skilled construction worker, longshoremen, or stagehand), where a union facilitates the borrower's placement in each assignment.

The Union may now provide:

- The verbal verification of employment for a union member who is currently employed, and
- An executed employment offer or contract for future employment for a union member who is not scheduled to begin employment until after the loan closes. All other existing requirements for employment offer or contracts apply.

6.7.38. VA Benefits Income

Document the borrower's receipt of VA benefits with a letter or distribution form from the VA.

Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. (Verification is not required for VA retirement or long-term disability benefits).

Note: Education benefits are not acceptable income because they are offset by education expenses.

6.8. Assets**6.8.1. HELOC – Freddie Mac**

A HELOC is considered an eligible source of funds towards the down payment, closing costs, and reserves, provided that the mortgage includes evidence that the HELIC is secured by the borrower's real property and that the HELOC proceeds have been disbursed to the borrower.

LPA feedback messages will be updated to reflect HELOC proceeds as an eligible asset.

6.8.2. Access Letters

In the event assets statements indicate a non-borrowing individual listed as a joint account owner, written documentation evidencing the borrower has access and full use of funds is not required.

6.8.3. Cash to Close

Must verify sufficient liquid assets to close



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6.8.4. Borrower as Real Estate Agent Commissions

When the borrower is representing himself as the buyer's agent, commissions may be used for closing costs and prepaids only.

6.8.5. Depository Accounts

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts may be used for the down payment, closing costs, and financial reserves. The funds must be verified. Unverified funds are not acceptable.

- Freddie Mac Only Asset account verification can be identified with a minimum of the last two digits of the account number.

6.8.6. Large Deposits

Large deposits are defined as a single deposit that exceed 50% of the total monthly qualifying income for the loan. Requirements for evaluating large deposits are show in the table below:

Transaction Type	Requirements
Refinance	Documentation or explanation for large deposits is not required; however, the lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered.
Purchase	<ul style="list-style-type: none"> • If funds from the large deposit are needed for closing, the funds must be documented as coming from an acceptable source. Examples include written explanation, proof of ownership of an asset that was sold, or receipt of gift funds. The file must include written documentation of the rationale for using the funds. • Verified funds must be reduced by the amount of the undocumented large deposit. Only the reduced amount is used in the underwriting decision. • If a deposit contains both sourced and un-sourced amounts, only the un-sourced portion is used to calculate whether or not must be considered a large deposit.

If the source of the large deposit(s) is readily identifiable on the account statement, such as direct deposit of payroll, Social Security, income tax refund or transfer between verified accounts, then further documentation is not required. Otherwise, the source of the deposit must be fully documented utilizing the following:

- A signed letter of explanation from the borrower, and
- If being used for funds-to-close (or as reserves), further documentation is required to source the deposit(s).

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6.8.7. Multiple NSF Charges and Overdraft Fees

Non-sufficient funds (NSF) and Overdraft (OD) are viewed as derogatory information and could be a detriment to overall file quality. AUS does not read NSF or OD charges on bank statements; therefore, that variable is not a part of the AUS decision making.

When reviewing the bank statements, it is important to determine if the NSF/OD fees are an isolated instance or a re-occurring issue. The bank statements should be reviewed for current month charges as well as YTD charges. An isolated instance could reflect several NSF/OD fees that can be attributable to a one-time error. For example, an automatic deposit was not received causing 3 payments in one month to be covered by overdraft, opposed to several NSF/OD fees in the same month that cannot be attributable to a specific issue.

If it is determined not to be an isolated occurrence, the underwriter must consider the overall credit risk of the file in determining its acceptability.

6.8.8. Occupant Borrower Contribution - DU

Assets that are jointly owned by occupant and non-occupant co-borrowers can be included in the 5% minimum borrower contribution requirement (when applicable), and those funds must be entered in the online loan application for one of the borrowers (but not both).

Total liquid assets for the occupying borrower and non-occupant co-borrower are included in DU's calculation of total available assets.

6.8.9. Occupant Borrower Contribution - LP

Effective 10/1/2015, Freddie Mac is removing the requirement that the 5% contribution from the Borrower has to be from the Borrower's own funds. A 5% contribution is still required; however, it is not required for it to come from the Borrower's own funds. A gift is allowed or from any other Freddie Mac approved sources. Please note: if you have a non-occupying Co-Borrower, the 5% cannot be gifted or provided by the non-occupying Co-Borrower.

6.8.10. Minimum Reserves**FANNIE MAE ONLY****Determining Required Minimum Reserves**

Minimum required reserves vary depending on

- The transaction,
- The occupancy status and amortization type of the subject property,
- The number of units in the subject property, and
- The number of other financed properties the borrower currently owns.



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Manually underwritten loans: The minimum required reserves are documented in the Product Matrix. However, when a borrower has multiple financed properties and is financing a second home or investment property, the lender must apply the applicable additional reserve requirements for the other financed second home and investment property transactions. Refer to the Calculation of Reserves for Multiple Financed Properties below for additional details.

DU loan casefiles: DU will determine the reserve requirements based on the overall risk assessment of the loan, the minimum reserve requirement that may be required for the transaction, and whether the borrower has multiple financed properties.

If a borrower has multiple financed properties and is financing a second home or investment property, DU will base the reserve calculations for the other financed properties on the number of financed properties determined by DU. Refer to the Calculation of Reserves for Multiple Financed Properties below for additional details.

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 mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:

- 2% of the aggregate UPB if the borrower has one to four financed properties,
- 4% of the aggregate UPB if the borrower has five to six financed properties, or
- 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only).

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, and
- Accounts that will be paid by closing (or omitted in DU on the online loan application).

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Minimum required reserves All reserves required by Loan Product Advisor, as stated on the Feedback Certificate, must be verified. The amount of reserves stated on the Feedback Certificate and required to be verified for Loan Product Advisor Mortgages secured by second homes and Investment Properties includes the following additional reserves:

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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 one to six 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- to 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 seven to 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- to 4-unit Investment Property that is financed and on which the Borrower is obligated

Additional Reserves Requirements:[Conversion of Principal Residence](#)**6.8.10.1. Acceptable Sources of Reserves**

Acceptable liquid financial assets that can be used for reserves include:

- Checking or savings accounts.
- Investments in stocks, bonds, mutual funds, certificates of deposit and money market funds. 100% of the value of the asset is allowed when determining available reserves.
- The amount vested in a retirement savings account (70% of vested balance).

6.8.10.2. Unacceptable Sources of Reserves

- The cash value of a vested life insurance policy.
- Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death.
- Stock held in an unlisted corporation.



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- Stock options and non-vested restricted stock.
- Personal unsecured loans
- Interested party contributions
- Cash proceeds from a cash-out refinance transaction.

6.9. Asset Types

6.9.1. Borrowed Funds Secured by an Asset

Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity.

Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts.

Considering Debt Associated with the Loan

When qualifying the borrower, the payments for the loan must be considered as a debt.

- If a secured loan does not require monthly payments, the lender must calculate an equivalent amount and consider that amount as a recurring debt.
- When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt.

Reducing the Asset by the Amount Borrowed

If the borrower uses the same financial asset as part of his or her financial reserves, the balance must be reduced by the amount being borrowed.

6.9.2. Cash Value of Life Insurance

Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs, and reserves. Refer to the following guidance:

Requirements	Documentation
<p>When funds are used for <u>down payment or closing costs</u>, any applicable withdrawal penalties or income tax must be subtracted so that only the net withdrawal is counted.</p> <ul style="list-style-type: none"> • If withdrawn as a loan, the monthly payment is not required to be included in the DTI ratio. • Proof of liquidation IS required 	<p>Most recent computer-generated or typed statement from the insurance company containing <u>all</u> of the following information:</p> <ul style="list-style-type: none"> • Life insurance company name • Identifies the applicant as the policy owner • The period covered and ending net cash value • Does not contain statement(s) identifying restrictions for withdrawal



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When used for reserves, in order to account for withdrawal penalties and estimated taxes, only 60% of the net cash value of the life insurance, less any new or outstanding loan(s) may be used.

- Proof of liquidation is **not** required.

- Any outstanding loans

If the assets are needed for closing, evidence of liquidation must be documented with one of the following:

- Copy of check from the insurer
- OR
- Payout statement issued by the insurer

6.9.3. Down Payment Assistance

- Allowed, see specific Down payment Program for guidelines

6.9.4. Gifts

A borrower of a mortgage loan secured by a principal residence, or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements below.

6.9.4.1. Minimum Borrower Contribution Requirements

- LTV ≤ 80%
 - 100% gift funds are allowed for Primary Residence or Second Homes
- LTV > 80%
 - Up to 100% gift funds are allowed for 1 Unit Primary Residence, per MI Guidelines. [See MI Company links.](#)
 - 2-4 Unit Primary Residence and Second Homes Gift Funds are allowed after a 5% Borrower Contribution

Note: Gift Funds are not allowed on investment properties.

6.9.4.2. Eligible Donors

- Relatives, 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 fiancé, fiancée, or domestic partner.
- 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: Ex-Spouse is an ineligible donor source.

6.9.4.3. Documentation Requirements

Gift letter showing the following information:

- Specify the dollar amount of the gift.

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- Specify the date the funds were transferred.
- Include the donor's statement that no repayment is expected; and indicate the donor's name, address, telephone number, and relationship to the borrower.

6.9.4.4. Documenting the Transfer of Funds

- Verification must be provided that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:
 - A copy of the donor's check and the borrower's deposit slip,
 - A copy of the donor's withdrawal slip and the borrower's deposit slip,
 - A copy of the donor's check to the closing agent, or
 - A settlement statement showing receipt of the donor's check.
- When funds are not transferred prior to settlement then documentation must be provided that the donor gave the closing agent the gift funds in the form of a certified check, cashier's check, or other official check.

6.9.4.5. Gift funds used to pay Borrower's Earnest Money Deposit

FREDDIE MAC ONLY Gift donor is allowed to pay the Borrower's earnest money deposit (EMD) directly to the builder or real estate agent with evidence of the transfer of funds from the donor's account in a financial institution to the earnest money deposit holder. All other gift fund requirements apply. EMD amount must be entered as gift funds in Loan Product Adviser (LPA), and not as EMD.

6.9.5. Virtual/Cryptocurrency

- Virtual/cryptocurrency may not be included in the calculation of assets as a basis for repayment of obligations.
- Virtual/cryptocurrency must be exchanged for U.S. dollars if it will be needed for the mortgage transaction (i.e., any funds required to be paid by the Borrower and Borrower reserves). There must be sufficient documented evidence that the virtual/cryptocurrency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and the funds are verified in U.S. dollars prior to the loan closing.
- The purchase price of the property and any earnest money deposit may not be designated in virtual/cryptocurrency.

6.9.6. Gifts of Equity

Gift equity in the subject property is an acceptable source of down payment, as long as the amount of equity has been verified. Acceptable donor requirements for gifts also apply to gifts of equity.

- LTV ≤ 80%
- 100% gift funds are allowed for Primary Residence or Second Homes
- LTV > 80%

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- Up to 100% gift funds are allowed for 1 Unit Primary Residence, per MI guidelines.
- 2-4 Unit Primary Residence and Second Homes Gift Funds are allowed after a 5% Borrower Contribution.

Note: Gift Funds are not allowed on investment properties.

Documentation Requirements

- Signed gift letter, and
- HUD-1 Settlement Statement listing the gift of equity.

6.9.7. Gift or Grant from a Municipality, Non-profit or Employer

A gift or grant from a municipality, non-profit religious organization, nonprofit community organization or the borrower's employer must be evidenced by a copy of:

- The award letter sent to the borrower, or
- The legal agreement that specifies the terms and conditions of the gift or grant.
- If the gift or grant is from the borrower's employer, the employer's formal gift program must be verified. Examples of acceptable documentation include, but are not limited to:
 - Copy of gift program guidelines from employee handbook
 - Letter from employer's human resources department
- File must contain evidence of the transfer of the funds.
- The award letter or the legal agreement must verify all of the following:
 - No repayment of the gift or grant is required
 - How the funds will be transferred (e.g., to borrower, closing agent, Lender, etc.)
 - There will be no lien against the property.
 - The borrower is not required to contribute 5% of the down payment from his own funds. The gift or grant can be used as the down payment.

6.9.8. Individual Development Account (IDA)

An IDA is a savings account designated by the borrower for the purpose of purchasing a residence and into which the borrower has regularly deposited funds that are matched by funds from a municipality, non-profit or religious organization, the borrower's employer, or a regional Federal Home Loan Bank.

Depending on whether the IDA has a provision that requires repayment of the matched funds, the requirements of either Option A or Option B must be met.

Option A (no repayment provision):

- Matching funds may be counted as cash for the full or partial down payment, closing costs, financing costs and prepaid items or escrow deposits.
- Document the savings plan and regular payments made by the borrower and the matching organization.



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- Allow for up to a 4-to-1 match by the matching organization.
- Borrower must comply with any vesting requirements of the IDA program.

Option B (repayment provision):

- All matching funds may be included as a gift or grant after the borrower has made the initial down payment from his own funds as required by the specific program.
- Document the savings plan and regular payments made by the borrower and the matching organization.
- Allow for up to a 3 to 1 match.
- Borrower must comply with any vesting requirements of the IDA program.

6.9.9. Interested Party Contributions

The maximum allowable contributions from interested parties based on the lesser of the purchase price or appraised value are:

Contribution Limits		
Property Type	LTV/ CLTV	Maximum Contribution
Primary Residence & Second Homes	> 90%	3%
	> 75% ≤ 90%	6%
	≤ 75%	9%
Investment Property	AL	2%

HUD-1 review:

- To ensure that all fees, disbursements and charges reflected on the settlement statement were fully disclosed in the purchase agreement and available to the appraiser for consideration in determination of the property's market value, review of both the borrower's and seller's side of the HUD-1 is required.
- Disbursements on the seller side of the HUD-1 to the borrower or an entity controlled by the borrower, or to a company owned by the seller, require additional consideration.
- Real estate commissions must include all commissions on page two of the HUD-1 (700 series section), as well as any non-lien related disbursements such as:
 - Marketing expenses.
 - Administration fees.
 - Finder's fees.
 - Referral fees
 - Consulting fees; or
 - Assignment of sale fees.

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- Any combination of the above disbursements exceeding 8% of the sales price must be treated as a sales concession and deducted dollar-for-dollar from the sales price for purposes of calculating the LTV/TLTV/CLTV.

6.9.10. Credit Cards, Cash Advances or Unsecured Lines of Credit

Freddie Mac is updating the requirements for using credit cards, cash advances and unsecured lines of credit to pay fees associated with the Mortgage application process (e.g., origination fees, commitment fees, lock in fees, appraisal, credit report and flood certifications).

This is an acceptable source of funds and may be considered Borrower Personal Funds if the following conditions are met:

- Maximum amount charged or advanced may not exceed the greater of 2% of the Mortgage amount or \$1,500, and
- The Borrower must have sufficient verified funds to pay these fees (in addition to the funds needed for the down payment, Prepaids/Escrows, other Closing Costs, Financing Costs and reserves as required); however, the Borrower is not required to pay off these charges at closing; or
- The amount charged or advanced must be included in the Borrower's total outstanding debt and the repayment of such amount must be included when determining the Borrower's monthly debt payment-to-income ratio.

6.9.11. Retirement Accounts

IRA, SEP IRA, 401(k), KEOGH, 403(b) and other IRS qualified retirement plans may be verified with a copy of the most recent monthly/quarterly statement evidencing the borrower as the owner and the value of the account.

6.9.12. Sale of Personal Property

The following documentation is required to evidence the sale of personal assets for funds to close:

- Personal property previously liquidated:
 - Bill of sale reflecting:
 - Date of sale.
 - Description of asset sold.
 - Sales price.
 - Signatures of buyer and seller; and
 - Copy of the check from the purchaser of the asset or the borrower's bank statement verifying the deposit of proceeds from the sale.
- Personal property to be liquidated:
 - Document the existence and the borrower's ownership of the asset (e.g., car title).
 - Document the value of the asset through a third-party source (e.g., appraisal or blue book); and
 - Letter of intent, contract, or other evidence that a buyer exists at the specified price.



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- Evidence of the actual sale, sufficient proceeds received from the sale, and proof that any outstanding liability owed against the asset was paid in full will be required at closing.

6.9.13. Savings Bonds

A copy of the bond certificate(s) must be provided evidencing the Borrower is the owner and the current value of the bonds, OR

Include a statement from the Seller or a financial institution attesting that it has seen the bonds and listing the serial numbers of the bonds, dates of maturity, type and amount, and stating that the borrower is the owner. A copy of the appropriate U.S. Treasury Table evidencing the current values of the bonds should also be provided.

6.9.14. Stocks, Bonds, Mutual Funds, U.S. Government Securities

A copy of the account statement for the most recent month/quarter is required.

Asset Type	Determining the Value
Stocks, Bonds and Mutual Funds	Need to document the value of the asset is at least 20% more than the funds needed for the borrower's down payment and closing costs, no documentation of liquidation is required. Otherwise, documentation of the borrower's actual receipt of funds realized from the sale or liquidation must be obtained.
Stock Options	<p>Vested stock options are an acceptable source of funds for down payment and closing costs if they are immediately available to the borrower. The value of vested stock options can be documented by:</p> <ul style="list-style-type: none"> • referencing a statement that lists the number of options and the option price, and • using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock. <p>Vested stock options are not an acceptable source for reserves Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves.</p>
Government Bonds	<p>The value of government bonds must be based on their purchase price unless the redemption value can be documented.</p> <p>When used for reserves, the value of bonds must be discounted by 30%.</p>



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6.9.15. Trust Accounts

Funds disbursed from a borrower's trust account are an acceptable source for the down payment, closing costs, and reserves provided the borrower has immediate access to the funds. The documentation is required:

- Obtain written documentation of the value of the trust account from either the trust manager or the trustee, and
- Document the conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

6.9.16. Use of Business Funds

When a borrower intends to use business assets as funds for the down payment, closing costs, and/or financial reserves, the lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. In order to assess the impact, the lender may require a level of documentation greater than what is required to evaluate the borrower's business income (for example, several months of recent business asset statements in order to see cash flow needs and trends over time, or a current balance sheet). This may be due to the amount of time that has elapsed since the most recent tax return filing, or the lender's need for information to perform its analysis.

The following requirements must be met when the borrower is using business funds for cash-to-close or reserves:

Additional Requirements

- The borrower's ownership percentage in the business (as noted on the K-1 for corporations and/or partnerships) should be applied to the amount of business funds being withdrawn. As an example, if the borrower has 50% ownership of the business, they are assumed to only have access to 50% of the business funds as shown on the asset statement.
- Business average annual cash flow must be greater than the amount to be withdrawn or used as reserves.
 - **Corporation/Partnerships:** This information is found on line 1 of Schedule L. A three-year history of a balance greater than or equal to the amount being considered for reserves or down payment is required. Two years of the schedule L will show three years of cash on hand for the company.
 - **Sole Proprietorship:** Sole Proprietorship funds may be in a personal or business account.
 - If utilizing Business Bank statements, the average ending balance of the most recent 3 consecutive statements must be greater than the amount to be withdrawn or used as reserves. If utilizing Personal Bank statements, the number of statements will be determined by AUS or program guidelines.
- Full analysis of the business must consider the effect of the withdrawal of the assets and how it will impact the strength and viability of the business in the future. The following questions need to be considered:



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- What is the pattern of company cash flows? Do we have declining gross or net income?
- Do we have concerns about the type of business? Is the business experiencing a downturn?

Extreme care needs to be taken when considering business use of funds and in some cases even though a business is profitable, it may not be prudent to use the business assets in our transaction.

6.9.17. 1031 Tax Deferred Exchanges

Section 1031 of the Internal Revenue Code allows investors to defer payment of State and Federal capital gains taxes by exchanging investment property rather than selling investment property. This code section provides a strategy for the deferral of capital gains taxes, which in turn provides a property owner with substantially more proceeds to reinvest in a replacement property.

A tax deferred exchange, therefore, is the process of rolling over funds from one investment property into another without having access to those funds. In a taxable sale, the property owner is taxed on any gain realized by the sale of the property. In an exchange however, the tax is deferred. This section of the IRS code does not apply to primary residences.

The following restrictions apply to second home and investment property purchases only:

- Reverse exchanges are not allowed because the borrower is not in title to the property at the time of closing.
- The product type must allow for second homes and investment properties.
- No subordinate financing will be allowed.
- The loan closing must be handled by a qualified intermediary. A qualified intermediary is an entity (usually a subsidiary of a title company) who enters into a written agreement with the taxpayer. The qualified intermediary cannot be an agent, attorney, accountant, investment banker or broker. This Exchange Agreement requires the qualified intermediary to acquire and transfer the relinquished property and to acquire and transfer the replacement property. The relinquished property is the property "sold" and the replacement property is the property "acquired."
- Copies of all closing documents and Purchase Agreement on the relinquished property must be obtained. Required documentation includes:
 - 1031 Exchange Agreement.
 - Settlement Statement; and
 - Title Transfer.
- Both Purchase Agreements (relinquished and replacement properties) must contain appropriate language to identify the 1031 exchange. An example of satisfactory language is:
 - Phase I (Sale): "Buyer is aware that Seller is to perform a 1031 Tax Deferred Exchange. Seller requests Buyer's cooperation in such an exchange and agrees to hold Buyer harmless from any and all claims, liabilities, costs or

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delays in time resulting from such an exchange. Buyer agrees to an assignment of this contract by the Seller." Phase II (Buy): "Seller is aware that Buyer is to perform a 1031 Tax Deferred Exchange. Buyer requests Seller's cooperation in such an exchange and agrees to hold Seller harmless from any and all claims, liabilities, costs or delays in time resulting from such an exchange. Seller agrees to an assignment of this contract by the Buyer."

- Seller Accommodations:
- If a borrower is purchasing a Seller's 1031 investment property to occupy as a primary residence, the borrower is accommodating the seller. The transaction is not considered a 1031 Tax Deferred Exchange and is, therefore, eligible for financing.
- 1031 Tax Exchange Down Payment Requirements:
- Equity from the exchange may be used for all or part of the down payment.
- The reserve requirements may not be waived

6.9.18. Use of Foreign Assets

Funds from foreign asset sources that are being used for down payment, closing costs, or financial reserves, must be deposited into a U.S. or state-regulated financial institution.

The loan file must contain evidence of the currency exchange rate used to convert the funds into US dollars from a financial institution or publication.

- A written conversion of the beginning and ending balances must be included.
- Currency exchange rates provided by the real estate agent, broker, seller, applicant or any interested party to the transaction are not permitted.
- Currency conversions can be calculated at the [Exchange Foreign Currency for U.S. Dollars Web site](#).
- Adequately translated, if needed.

Note: Large deposits must be appropriately sourced as per the requirements contained in this document.

6.9.19. Credit Card Reward Points (Fannie Mae Only)

The use of credit card reward points for down payment, closing costs, and reserves are allowed provided they are converted to cash prior to the closing of the loan. If the funds are deposited into the borrower's depository account the deposit is considered a large deposit per existing policy, and documentation must be provided to show the source of the large deposit was from the conversion of credit card reward points.

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6.10. Liabilities**6.10.1. Mortgages Paid by Others**

When a borrower is obligate on a mortgage debt (but is not the party who is actually repaying the debt) the lender may exclude the following monthly housing expense (PITIA) from the borrower's recurring monthly obligations is:

- The party making the payments is obligated on the mortgage debt
- There are no delinquencies on the most recent 12 months, and
- The borrower is not using rental income from the applicable property to qualify.

In order to exclude the mortgage debt from the borrower's DTI ratios, 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 must be obtained.

When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payment, the referenced property must be included in the count of financed properties.

6.10.2. Alimony/Child Support/Separate Maintenance Payments**6.10.2.1. Fannie Mae**

Payment of alimony can be treated with 2 options.

Option 1:

- Reducing the borrower's monthly qualifying income by the amount of the monthly alimony payment.

Option 2:

- Including the monthly payment as a liability in the calculation of the DTI.

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. In this case, you can disregard the DU message requiring inclusion of the alimony obligation as a monthly liability that is issued whenever the borrower declares on the loan application that they are obligated to pay alimony. Documentation confirming the amount of the alimony obligation is still required.

6.10.2.2. Freddie Mac

- Alimony with more than 10 months of payments remaining must be deducted from the Borrower's gross monthly income. The reduced monthly income amount should be used to qualify the borrower.

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- Child support will continue to be treated as a debt when calculating the monthly debt payment to income ratio.

6.10.3. Authorized User Tradelines**6.10.3.1. Fannie Mae**

Authorized user accounts may be excluded from the DTI calculation only if **both** of the following requirements have been met:

- Evidence documenting payments have been made by the account holder (if not a borrower on the transaction) for the past 3 consecutive months.
- Excluding the authorized user account does not negatively affect the overall credit profile of the borrower.

6.10.3.2. Freddie Mac

LPA will provide a feedback message regarding authorized user account(s), the message will indicate the following requirements:

- 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 the above requirements cannot be documented for each authorized user account, 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 determination should be based on the number of the borrower's own tradelines, as well as their age, type, size and the payment history, as compared to the authorized user accounts.

6.10.4. Business Debt in Borrower's Name

When a self-employed borrower claims that a monthly obligation appearing on their personal credit report is being paid by the borrower's business, the Underwriter must verify that the obligation was actually paid out of 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 individual recurring monthly debt obligations 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 canceled company checks), and
- The lender's cash flow analysis of the business took payment of the obligation into consideration.

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The account payment **does** need to be considered as part of the borrower's individual recurring monthly debt obligations 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 to 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).
- 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 interest, taxes, or insurance expense, if any, that relates to the account in question.

6.10.5. Small Business Administration (SBA) Loans

Monthly payment must be included in the DTI.

6.10.6. Contingent Liabilities

Contingent liabilities are debts that the borrower is not currently required to pay but may be required to pay in the future (e.g., co-signed loans, court ordered payments, previous residence sold through assumption of mortgage with no release of liability).

6.10.6.1. Co-Signed Loans

When a borrower co-signs for a loan to enable another party to obtain credit—but is not the party who is actually repaying the debt—the borrower has a contingent liability.

Non-mortgage debt may be excluded from the debt-to-income ratio (DTI), provided that the debt has been satisfactorily paid by another party for the past 12 months, regardless of whether the other party is obligated on the debt.

Documentation for the most recent 12 months must be provided showing other party paying debt. Non-mortgage debts include debt such as installment loans, student loans, etc.

Note: This does not apply if the other party is an interested party to the subject transaction (such as the seller, realtor, LO).

6.10.6.2. Court Order

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, the payment may be excluded from long term debt. The following documents are required:

- Copy of the court order or divorce decree.

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- For mortgage debt, a copy of the documents transferring ownership of the property; or
- If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the mortgaged property should be taken into account when reviewing the borrower's credit profile.

6.10.6.3. Assumption with No Release of Liability

The debt on a previous residence may be excluded from long term debt with evidence that the borrower no longer owns the property. The following documents are required:

- Copy of documents transferring ownership of the property; the assumption agreement executed by the transferee; and evidence that the mortgage is current.

6.10.7. Conversion of Principal Residence DU

Guidance for conversion of primary residence no longer apply. Refer to Fannie Mae Announcement #SEL2015-07.

6.10.8. Conversion of Principal Residence LP

Conversion to a Second Home or Investment Property – additional reserves and rental income requirements have been eliminated. Standard reserves and rental income requirements now apply.

Pending sale, but the sale will not close prior to the closing of the new Mortgage – the monthly payment amount can be excluded if the loan file contains:

- An executed sales contract for the property pending sale. If the executed sales contract includes a financing contingency, the Mortgage file must also contain evidence that the financing contingency has been cleared or a Lender's commitment to the Buyer of the property pending sale, or
- An executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding Mortgage(s).

6.10.8.1. Verification of Departure Equity

Not Required

6.10.9. Deferred Payment Accounts

Some debts may have deferred payments or be in a period of forbearance. These debts must be included in the qualifying ratios. When payments on an installment debt are not given on the credit report or are listed as deferred, documentation supporting the required payment must be provided.

Examples of acceptable documentation include but are not limited to:

- Direct verification from the creditor.
- Copy of the installment loan agreement.

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Virtual/Cryptocurrency

- Monthly payments on debts secured by virtual/cryptocurrency must be included in the Borrower's debt to income ratio (DTI) and are not subject to guidelines regarding installment debts secured by financial assets

6.10.10. Deferred Installment Loans

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the lender must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

6.10.10.1. Student Loans

If a monthly student loan payment is provided on the credit report, the lender may use that amount 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 a payment equal to 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 repayment terms.

6.10.10.2. Freddie Mac Student Loans (Repayment, Deferment, Forbearance)

When calculating the monthly DTI ratio, use the following:

- If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or
- If the monthly payment amount reported on the credit report is zero, use .50% of the outstanding balance, as reported on the credit report.

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6.10.11. Lease Payments

The monthly payment associated with a lease should be included in the total monthly obligations regardless of the number of payments remaining on the lease. If the lease is near the end of its term the new lease payment should be determined and included in the total monthly debts.

6.10.12. Loans Secured by Retirement Accounts

Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt because they are voluntary payments; however, the underwriter should consider these payments in terms of their possible impact on cash flow and debt ratios. The borrower should indicate plans for debt repayment if the inclusion of a 401(k) or SIP loan payment in the monthly debts would result in a very high total debt-to-income ratio.

6.10.13. Open End Lines of Credit (HELOCs)

If not shown on the credit report, payments on a home equity line of credit with an outstanding balance may be calculated at 1% of the outstanding balance or the current payment reflected on the borrower's billing statement.

6.10.14. Open-End 30-Day Accounts (Non HELOC) FREDDIE MAC ONLY

The full amount of the outstanding account balance must be included in the debt payment to income ratio, or verification that the Borrower has sufficient funds to pay off the outstanding account balance. The funds must be in addition to any funds used to qualify the Borrower for the subject transaction, and the source of funds must be an eligible source. 5% of the outstanding balance included in DTI is no longer allowed for qualifying. New Section Open-End 30-day Accounts (Non HELOC) FANNIE MAE ONLY Open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, funds must be verified to cover the account balance. Verified funds must be in addition to any funds required for closing costs and reserves. Note: DU will include the balance of the 30-day charge accounts on the loan application in the reserve required to be verified amount shown on the DU Findings. However, for transaction that do not require the verification of reserves, the balance of 30-day charge account in the reserve required to be verified amount will be reduced by any cash out the borrower will receive through the transaction. If the borrower paid off the account balance prior to closing, proof of payment in lieu of verifying funds to cover account balance.

6.10.15. Payoff or Paydown of Debt for Qualification

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

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Sufficient funds should be verified to cover loan related costs as well as funds required to pay off the debt.

6.10.15.1. Installment Accounts

Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.

6.10.15.2. Revolving Accounts

The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the borrower's long-term debt and ratio calculation. If the credit report does not reflect a payment on a currently reporting liability, and the actual payment cannot be determined, a minimum payment may be calculated using the greater of \$10.00 or 5% of the outstanding balance.

- Revolving debt accounts which are paid down to zero at closing may remain open and no monthly payment needs to be included in the DTI ratios.

Documentation of Source of Funds used to pay off or pay down debts
When an unverified deposit is used to pay off or pay down an existing debt in order to qualify for the mortgage, the source of funds must be documented. This applies regardless of the deposit amount or whether the mortgage is a purchase or a refinance transaction.

6.11. Property/Appraisal**6.11.1. Gross Living Area – Fannie Mae Only**

Appraisers must follow the Square Footage-Method for Calculating: ANSI® Z765-2021 ("ANSI standard") when measuring, calculating, and reporting the gross living area and non-gross living areas (basement, additional structures, etc.) of the subject property for most property types. Appraisals requiring interior and exterior inspections must follow this standard; appraisals of this type performed without using this standard will not be acceptable.

Note: The ANSI standard cannot be used to measure apartment-style units in condo or co-op projects; however, it must be used for any non-apartment style dwellings including townhomes, rowhouses, and other detached single-family homes.

When measuring apartment-style units in condo, or co-op projects; the appraiser should use interior perimeter measurements. The ANSI standard also does not apply to two- to four-unit properties. The most common comparison for one-unit properties, including units in PUD, condo, or co-op projects, is above grade gross living area and below-grade square footage. The appraiser must be consistent when reporting the finished above-grade gross living area, below-grade square footage, and room count. The need for consistency also applies from report to

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report. For example, when using the same transaction as a comparable sale in multiple reports, the room count, and gross living area must not change. When using sketching or 3D scanning software, the resulting output must also conform to the ANSI standard. See Exhibits for Appraisals in B4-1.2-01, Appraisal Report Forms and Exhibits for additional information on sketches and floor plans. Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below Grade line in the Sales Comparison Approach adjustment grid. Detached structures with finished square footage must be reported on a different line in the adjustment grid and not included as part of the subject's reported gross living area. When the subject property has an area that does not meet the ANSI minimum ceiling height requirements, the additional square footage must be reported on an additional line in the adjustment grid and an appropriate market adjustment applied, if warranted. Additionally, the appraiser must provide an explanation in the report for how this area was handled in order to comply with the ANSI standard and also acknowledge any contribution of the additional square footage. Published April 6, 2022 589 If the appraiser is unable to adhere to the ANSI standard they must enter "GXX001-" at the beginning of the Additional Features field of the appraisal and provide an explanation of why they were not able to comply. For example, the appraiser is performing an appraisal in a state that requires adherence to a different measuring standard. Such loans may still be eligible for purchase by Fannie Mae.

6.11.2. Gross Building Area – Fannie Mae Only

The gross building area:

- Is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements.
- Is the most common comparison for two- to four-unit properties; must be consistently developed for the subject property and all comparables used in the appraisal.
- Must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and
- Cannot count exterior common areas, such as open stairways.

Fannie Mae will accept the use of other comparisons for two- to four-unit properties, such as the total above-grade and below-grade areas discussed in Gross Living Area, provided the appraiser explains the reasons he or she did not use a gross building area comparison, and



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- Clearly describes the comparisons that were made.

6.11.3. Accessory Unit Comparable Sale Selection

If a comparable sale with an accessory unit is not available in the subject neighborhood, the appraiser can use a comparable sale in the subject neighborhood without an accessory unit as long as the appraiser can justify and support such use in the appraisal report. Appraiser must develop an accurate opinion of market value for the property.

Additionally, to provide greater specificity, we are identifying an accessory unit as an additional living space that includes at least a kitchen, a bathroom, and a separate entrance and is independent of the primary dwelling unit.

6.11.4. Fannie Mae Accessory Dwelling Units (ADU)

An ADU is typically an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary one-unit dwelling. The ADU must provide for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary one-unit dwelling.

The following table describes the requirements for classifying an ADU:

Requirements
<ul style="list-style-type: none"> • Only one ADU is permitted on the parcel of the primary one-unit dwelling. • ADU's are not permitted with a two to four-unit dwelling.
<p>The ADU must:</p> <ul style="list-style-type: none"> • Be subordinate in size to the primary dwelling • Have the following separate features from the primary dwelling: <ul style="list-style-type: none"> ○ Means of ingress/egress ○ Kitchen ○ Sleeping area ○ Bathing area, and ○ Bathroom facilities <p>The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the primary dwelling, or the area is open to the primary dwelling with no expectation of privacy</p>
<p>The kitchen must, at a minimum, contain the following:</p> <ul style="list-style-type: none"> • Cabinets • A countertop • A sink with running water, and • A stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes) <ul style="list-style-type: none"> ○ An independent second kitchen by itself does not constitute an ADU. ○ The removal of a stove does not change the ADU classification.

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A borrower must qualify for the mortgage without considering any rental income from the ADU. See HomeReady Underwriting Manual for guidance when using rents from an ADU on a HomeReady Mortgage.

Construction of an ADU

The construction method of an ADU can be site or factory built. If factory built, all designs must be multi-width and the primary dwelling must be site built. If the ADU is manufactured housing, the following must be verified:

- The property was built in compliance with the Federal Manufactured Home Construction and Safety Standards (established June 15, 1976 as amended and in force at the time the home was manufactured),
- It is attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance,
- The foundation system must be appropriate for the soil conditions for the site and meet local and state codes,
- It is encumbered by the mortgage with the primary dwelling, and
- Additional requirements that appear in HUD regulations in 24 C.F.R Part 3280

Compliance with these standards will be evidenced by photos of either the HUD Data Plate or HUD Certification Label (or both) in appraisal. If the original or alternative documentation cannot be obtained for either the Data Plate/Compliance Certificate or HUD certification Label the loan is not eligible.

Examples of ADUs

Examples of ADUs include, (but are not limited to):

- A living area over a garage.
- A living area in a basement.
- A small addition to the primary dwelling, or
- A manufactured home (if it is real property).

Whether a property is defined as a one-unit property with an accessory unit or two-to-four-unit property will be based on the characteristics of the property, which may include, but are limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal.

Zoning for an ADU

Some ADUs may predate the adoption of the local zoning ordinance and therefore be classified as legal nonconforming. An ADU should always be considered legal if it is allowed under the current zoning code for the subject property.

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If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- Verify that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- Appraisal requirements related to zoning for an ADU are met.

6.11.5. Non-Permitted Additions, Improvements or Conversions

Properties with non-permitted additions, improvements or conversions may be acceptable.

If the appraiser identifies an addition to the property that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

6.11.6. Multiple Parcels

MWF will lend on properties with multiple parcels that meet ALL of the following:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoining.
 - Exception: parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel(s) WITHOUT a residence is a non-buildable lot). Evidence of the non-buildable lot MUST be included in the file.
- Each parcel must be zoned as residential.
- Only one parcel may have a dwelling unit.
 - Limited nonresidential improvements such as a garage are acceptable.
 - The dwelling may be built across lot lines.

The new mortgage must reflect as a first lien associated with each parcel (all parcels encumbered by the new mortgage).

6.11.7. Agency Guidelines

All appraisals should be ordered in accordance with AUS Findings.

6.11.7.1. Fannie Mae Appraisal Waiver (AW)**Eligible Transactions**

The PIW/AW offer will be considered for the following transactions:

- One-unit properties, including condos.
- Principal residence, second home, and investments property refinance transactions.
- Certain purchase, limited cash-out and cash-out refinance transactions; and
- DU loan casefiles that receive an Approve/Eligible recommendation.



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Ineligible Transactions

The following transactions are not eligible for a PIW/AW:

- AW/PIW not allowed in the state of Texas. Full appraisals required
- Construction, and construction-to-permanent loans.
- Two-to four-unit properties.
- HomeStyle Renovation and HomeStyle Energy mortgage loans.
- DU Refi Plus loan casefiles (will continue to be eligible for the DU Refit Plus property fieldwork waiver).
- Leasehold properties.
- Community loan 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).
- Transactions using gifts of equity
- DU loan casefiles that receive an Ineligible recommendation; and
- Investment transactions when using subject rents for qualification.
- Transactions where either purchase price or estimated value provided to DU is \$1,000,000 or more

Furthermore, the PIW/AW may not be an exercised offer and must order an appraisal if one or more of the following applies:

- DU was unable to identify ineligible criteria in the list above (for example, HomeStyle Energy).
- Required by law to obtain an appraisal (see A3-2-01, Compliance with Laws (05/30/2017)); or
- Believes that an appraisal is warranted based on additional information the lender has obtained about the property.

Note: The lender may not exercise a PIW/AW offer if an appraisal is obtained for the transaction.

Disaster Impacted Areas

- If the loan casefile received an appraisal waiver offer prior to the disaster and upon resubmission to DU continues to meet all other appraisal waiver eligibility requirements, DU will continue to offer the appraisal waiver and issue a new message. This message will indicate that the lender may accept the appraisal waiver offer but must:
 - Take prudent and reasonable actions to determine if the condition of the property has been materially impacted by the disaster, and
 - Comply with the property eligibility that pertain to properties affected by a disaster in the Fannie Mae Selling guide.

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6.11.7.2. Freddie Mac Automated Collateral Evaluation (ACE)**Process for qualifying for and accepting the appraisal waiver:**

- Loan must be submitted to Loan Product Advisor and receive a Risk Class of Accept.
- 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 Loan Selling Advisor must indicate the collateral representation and warranty relief status is "Y" or "Yes."

Eligible Mortgages

The following requirements must be met for Mortgages to be eligible to receive an appraisal waiver offer:

- The Mortgage must be secured by a 1-unit dwelling, including a Condominium Unit.
- The Mortgage must be secured by a Primary Residence or second home.
- The Mortgage must have a loan-to-value (LTV) ratio/total LTV (TLTV) ratio less than or equal to 80% for Primary Residence or second home purchase transactions.
- The Mortgage must be a purchase transaction or a "no cash-out" refinance.
- The Mortgage must have a loan-to-value (LTV) ratio/total LTV (TLTV) ratio less than or equal to 90% for Primary Residence or second home.

Ineligible Mortgages

The following Mortgages are not eligible for an appraisal waiver:

- ACE/PIW not allowed in the state of Texas. Full appraisals required
- Mortgages for which an appraisal has been obtained in connection with the Mortgage.
- Mortgages secured by one of the following:
 - A Manufactured Home, or
 - A leasehold estate.
- Mortgages secured by Mortgaged Premises subject to resale restrictions.
- Construction Conversion and Renovation Mortgages.
- Freddie Mac Relief Refinance MortgagesSM – Same Servicer or Open Access.
- Freddie Mac Enhanced Relief Refinance Mortgages.
- Non-arm's length transactions.
- Purchases of REO properties (as identified in the sales contract).



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- Mortgages with an estimate of value or purchase price greater than \$1,000,000.

In addition, an appraisal waiver offer is not eligible if any of the following apply:

- An appraisal is required by law or regulation
- The Seller is aware of conditions it believes warrant an appraisal being obtained. Examples include, but are not limited to:
 - The property is located in an area recently impacted by a disaster
 - 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, etc.

6.11.8. Final Inspections

A Front photograph of the subject property is required when the appraiser completes the 1004D to validate at least the exterior of the property was inspected.

6.11.9. Recertification of Value

The following table details the requirements for determining appraisal update requirements:

If	Then
The appraiser indicates the property value has declined.	MWF must obtain a new appraisal for the property.
The appraiser indicates the property has not declined in value.	<p>MWF may request that the appraiser provide an update to the appraisal, based on the appraiser's exterior inspection of the property and knowledge of current market conditions.</p> <p>The inspection and the appraisal update must occur before the initial appraisal expires.</p>

6.11.10. Smoke, Fire & Carbon Monoxide Detector Requirements

[Smoke, Fire & Carbon Monoxide Detector Requirements](#)

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6.11.11. Conventional Refinance Transactions

- The applicant must have taken title to the subject property more than 180 days prior to the loan application date for any cash-out refinance transactions.
- A rate-term refinance transaction on loans where the borrower has taken title to the subject property at least 30 days prior to the loan application date is typically acceptable if there is a reasonable relationship between the acquisition cost and the current appraised value.
- Increased values as a result of improvements to the subject property by the current owner may be acceptable with adequate documentation regarding the improvements.
- If the property has been acquired within 120 days of the application date, consider the lower of the documented acquisition cost or the new appraised value for determining LTV/TLTV/CTLTV.
- A new appraisal will be required for all transactions regardless of the date of the original appraisal.
- The prior purchase transaction must be documented with one or more of the following:
 - HUD-1 Settlement Statement.
 - Conveyance Deed (with Sales Price Information).
 - Proof of Paid Real Estate Transfer Taxes (with Sales Price Information).
 - Chain of Title (with Transfer Dates and Sales Price Information).
- Inherited properties are exempt from these requirements.
- Evidence of required seasoning must be submitted in the underwriting file. Underwriters must verify borrower is the owner of record.
- Appraisals must indicate required sales history information as required by regulation.

6.11.12. Leaseholds

MWF accepts mortgages that are secured by leasehold estates in areas in which this type of mortgage loan has received market acceptance. The following criteria must be met:

- The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.
- The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien, and must be insured by the lender's title policy.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sublessor.

Term of the Leasehold

The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage.

Additional Requirements

- All lease rents, other payments, or assessments that have become due must be paid.

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- The borrower must not be in default under any other provision of the lease, nor may such a default have been claimed by the lessor.

Lease Requirements

- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times by the lessee either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that the borrower will pay taxes, insurance, and homeowners' association dues related to the land in addition to those he or she is paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must be serviced by either the lender that delivers the mortgage to Fannie Mae or the servicer it designates to service the mortgage.
- The lease must provide lenders with the right to receive a minimum of 30 days' notice of any default by the borrower, and the option to either cure the default or take over the borrower's rights under the lease.

Option to Purchase Fee Interest

- The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land.
- If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised.
- If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold.

Ineligible Property Types

- Manufactured
- VA Indian Leasehold Properties

6.11.13. Maximum Acreage

Land value cannot exceed 30% of Total value of property.



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6.11.14. Rural Appraisal Requirements

Fannie Mae has provided guidance with respect to Property and Appraisal requirements for properties located in small towns or rural areas, as detail in Lender Letter LL-2014-02.

Properties located in small towns and rural areas often have characteristics that present difficulties for appraisers, such as unique building types, substantial distances between properties, large lot sizes that may include farmland, and non-public sources for various utilities. These additional guidelines are to provide clarification for properties located in these small towns and rural areas.

6.11.14.1. Property Eligibility and Special Considerations

Determining property eligibility can be challenging for loans in small towns and rural areas. Zoning, land use, property type, and other influences must all be considered, in addition to property condition and marketability. Many rural properties have mixed use, mixed zoning or other unusual characteristics that make determining property eligibility difficult. Properties may be located on large parcels of land, and/or have numerous outbuildings with secondary uses that are not residential in nature. In addition, property improvements may be very unique and not easily compared with available market data.

Properties in small towns and rural areas are eligible, provided the properties are residential in nature and use, given that all other requirements and conditions concerning property eligibility have been met. Properties must be residential in nature and not primarily used for agricultural or commercial purposes.

6.11.14.2. Acceptable Appraisal Practices

The availability of suitable sales for comparison can be challenging. Appraisers often have very limited market data and available sales may be dated, dissimilar and/or located some distance from the subject property. The following guidance is provided to account for these situations.

6.11.14.3. Adjustments

Large and numerous adjustments may be necessary to account for differences in location, site size, age, condition and other dominant property features. The adjustments may exceed the generally accepted practice that any variation from the comparable sale price be limited to 15% net and 25% gross adjustments. This is often unavoidable given the limited availability and suitability of comparable data.

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Whenever possible, appraisers should attempt to balance the analysis by isolating dominant features within the subject property and select sales that compare to those features. For example, a subject property with a large site should be compared to comparable sales with large sites even though the sale may be distant, dated, or dissimilar in order to isolate the contributory value of the subject's site. Comparable sales that are used in this manner can be balanced by sales that are more current, closer in proximity, or those that have very similar improvements in terms of style, design, age, condition, etc.

6.11.14.4. Distance

Appraisals of properties located in small towns with few sales may require appraisers to select comparable sales from neighboring towns some distance away. Depending on market activity, these sales may also be dated but represent the best available at the time. The appraiser is responsible for providing an appropriate amount of relevant narrative discussion on current market conditions, available market data and a detailed explanation of the analysis and conclusions contained in the appraisal.

If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. Underwriting will review the revised appraisal report to ensure that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to ensure the necessary alterations or repairs have been completed prior to delivery of the loan.

6.11.15. Termite Inspections**Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity**

The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

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If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. Underwriting will review the revised appraisal report to ensure that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to ensure the necessary alterations or repairs have been completed prior to delivery of the loan.

Infestation, Dampness, or Settlement

If the appraisal indicates evidence of wood-boring insects, dampness, or settlement, the appraisal must comment on the effect on the marketability and the value of the subject property.

A satisfactory report evidencing that the condition was corrected, or a professionally prepared report, indicating—based on an inspection of the property—that the condition does not pose any threat of structural damage to the improvements, must be submitted to Underwriting.

Condominiums

If a Termite Report reveals problems with sections of the condo held in common with other owners, the work will need to be completed by the Homeowners Association. If the work cannot be completed by the close of escrow, a letter from the Homeowners Association detailing the following is required prior to closing:

- Date of the scheduled repairs (not to exceed 30 days from the close of escrow).
- Name of contractor awarded the work.
- Acknowledgment that the funds necessary to pay for the repairs have been budgeted.

6.11.16. Home Inspection

If the Home inspection fee is the only fee on the estimated Hud-1 or on the final HUD -1, we do Not ask for the Home Inspection report.

However, if there are repairs, originated from the home inspection report, reflected on the estimated or final Hud-1, the underwriter or funder can have the repairs cost removed from the Hud-1. If the buyer and seller will not allow it to be removed, the home inspection report will need to be requested and reviewed by the underwriter.

6.11.17. Appraisal Transfer Policy

MWF accepts Conventional Appraisal transfers that meet all stipulations and requirements listed below. If any of the following requirements are not met, a new appraisal must be ordered and completed through Mortgage Works AMC.



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- All transferred Appraisals must have been ordered by a Lender.
- Transferred appraisal must be no greater than 90 days old at time of submission.
- The Appraisal must have been completed by a reputable nationally recognized Appraisal Management Company from the following list:
 - Rels Appraisal Management
 - RPM Appraisal Management Services
 - Real Valuation Services
 - Property Sciences
 - StreetLinks Appraisal Management
 - First American Appraisal Service
 - Nations Lending Services
 - Murcor
 - Clear Capital Appraisal Management
 - Axis Appraisal Management
 - AMC's APEX AMC
 - Order Pro AMC
 - Value Trends
 - Corelogic
 - PCA Management
 - Janus AMC

*This list is not considered to be all-inclusive. AMCs may be approved at the discretion of MWF.

Note: In order for MWF to accept a transferred Conventional Appraisal, the Borrower listed on the report must be the same Borrower that is on the loan transaction.

Required documents for a transferred Conventional Appraisal

- PDF color version of the Appraisal.
- First generation XML version of the Appraisal.
- SSR's from the previous lender (must have a "Successful" status reflected on the SSR itself).
- Compliance Letter from the AMC that completed the Appraisal to verify compliance with Appraisal Independence Regulation.
- Letter from existing lender or AMC indicating that the Appraisal has been transferred to MWF as a lender.
- PAID Appraisal invoice (If the Appraisal has an outstanding fee due, MWF will not accept the transfer).

Note: In the event of lack of cooperation from existing lender or AMC regarding items such as changes or clarifications, MWF may need to order a new appraisal.

Processing an Appraisal Transfer

To request the Appraisal, Transfer the Broker can request it through the "Appraisal Transfer Request Form" located under the Mortgage Works AMC section of the Wholesale website.

**PRODUCT GUIDELINES**

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Eligible Loan Types

- Conventional Conforming
- Conventional High Balance

6.11.18. Private Transfer Fee Covenants – Endowment Fees

Not Allowed

7. Product Guidelines**7.1. General Purchase Guidelines**

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property or to finance the acquisition and rehabilitation of a property. The table below provides the general requirements for purchase money mortgage transactions. Certain mortgage loans and products may have different eligibility requirements for purchase mortgage transactions. If applicable, the differences will be stated in the specific mortgage loan or product topic section.

7.1.1. Fannie Mae

The minimum borrower contribution requirements for the selected mortgage loan type must be met.

Proceeds from the transaction must be used to:

- Finance the acquisition of the subject property,
- Finance the acquisition and rehabilitation of the subject property,
- Convert an interim construction loan or term note into permanent financing, or
- Pay off the outstanding balance on the installment land contract or contract for deed.

Proceeds from the transaction may not be used to give the borrower cash back other than the following:

- An amount representing reimbursement for the borrower's overpayment of fees and charges, including refunds that may be required in accordance with certain federal laws or regulations. The settlement statement must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund; and
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears.

Note: If the borrower receives cash back for a permissible purpose as listed above, the lender must confirm that the minimum borrower contribution requirements associated with the selected mortgage product, if any, have been met. Reimbursements or refunds permitted above may also be applied as a principal curtailment.

**PRODUCT GUIDELINES**

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7.1.1.1. Requirements for Purchase Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%

If the LTV, CLTV, or HCLTV ratio exceeds 95% for a purchase transaction, the following requirements apply.

Criteria	Requirements
LTV, CLTV, or HCLTV Ratio	95.01 to 97% Note: The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan.
Loan Type	Fixed-rate loans with terms up to 30 years. Note: High-balance loans are not permitted.
Property and Occupancy	One-unit principal residence. Manufactured housing is not permitted, unless the property meets the MH Advantage requirements. All borrowers must occupy the property unless there is a Community Seconds subordinate lien.
Borrower Eligibility	<ul style="list-style-type: none"> First time home buyer, as indicated on the Uniform Residential Loan Application (Form 1003) in Section VIII., when at least one borrower responds "No" to Declaration M: Have you had an ownership interest in a property in the last three years? At least one borrower on the loan must have a credit score
Homeownership Education	

Note: If all borrowers are first-time homebuyers, homeownership education is required.

7.1.1.2. Purchase of Preforeclosure or Short Sale Properties — Allowable Fees, Assessments, and Payments

Borrowers may pay additional fees, assessments, or payments in connection with acquiring a property that is a preforeclosure or short sale that are typically the responsibility of the seller or another party. Examples of additional fees, assessments, or payments include, but are not limited to, the following:

- Short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees).

**PRODUCT GUIDELINES**

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Note: This fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction.

- Payment to a subordinate lienholder; and
- Payment of delinquent taxes or delinquent HOA assessments.

The following requirements apply:

- The borrower (buyer) must be provided with written details of the additional fees, assessments, or payments and the additional necessary funds to complete the transaction must be documented.
- The servicer that is agreeing to the preforeclosure or short sale must be provided with written details of the fees, assessments, or payments and has the option of renegotiating the payoff amount to release its lien.
- All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees, assessments, or payments.
- The settlement statement must include all fees, assessments, and payments included in the transaction.

7.1.2. Freddie Mac**7.1.2.1. Purchase transaction Mortgages**

A purchase transaction Mortgage is a Mortgage the proceeds of which are used to:

- Acquire the Mortgaged Premises, or
- Acquire the Mortgaged Premises and finance improvements to the property as permitted under the Seller's Purchase Documents, or
- Pay off the outstanding balance under a land contract or contract for deed.

7.1.2.2. Cash back on purchase transaction Mortgages

The Borrower may receive cash back, or a principal curtailment may be made, 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 Mortgage. Examples of such overpayments 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 funds 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 prior to the Note Date.
- Refunds mandated by federal laws or regulations.

**PRODUCT GUIDELINES**

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The minimum Borrower contribution, if applicable, must be met at closing (See Sections 5501.3(b)(i) and 4501.10). 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 regulation, the Mortgage file must include documentation supporting the amount and the reason for the reimbursement and/or refund.

7.2. General Refinance Guidelines

7.2.1. Eligibility to Refinance

The Borrower is eligible to refinance the loan if, he/she has legal title, even if he/she is not originally on the note.

7.2.1.1. FNMA

Rate/Term Refinance

No seasoning requirement. Borrower needs to currently hold title to subject property with prelim reflecting borrower as current owner. Current appraised value can be used.

Cash-Out Refinance

6-month seasoning requirement. Borrower must be obligated on the Note OR Title for 6 months prior to the refinance. Current appraised value can be used. Prelim must reflect borrower as the current owner for 6 months.

7.2.1.2. FREDDIE MAC

For all (including cash out) 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, either:
 - Has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 12-month period; OR
 - Is a related person to a borrower on the mortgage being refinanced, OR

**PRODUCT GUIDELINES**

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- 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).

CASH OUT REFINANCE – SUBJECT PROPERTY FREE AND CLEAR

At least one borrower must have held title to the subject property for at least six months prior to the note date, except as specified below.

If none of the borrowers have held title to the subject property for at least six months prior to the note date of the cash out refinance mortgage, the following requirement(s) 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:

- The settlement/closing disclosure statement from the purchase transaction must reflect that financing secured by the subject property was not used to purchase the subject property. If the mortgage has an application received date prior to October 3, 2015, the settlement/closing disclosure statement must be an executed version. A recorded trustee's deed or equivalent documentation may be used when a settlement/closing disclosure statement 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 subject property must be fully documented.
- If funds were borrowed to purchase the subject property, those funds must be repaid, and reflected on the settlement/closing disclosure statement for the refinance transaction.
- The amount of the cash out refinance mortgage must not exceed the sum of the original purchase price and related closing costs, financing costs and prepaids/escrows as documented by the settlement/closing disclosure statement 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 was not used for the purchase transaction.
- There must have been no affiliation or relationship between the buyer and seller of the purchase transaction.

7.2.2. Refinances that Include the Financing of Real Estate Taxes

Borrowers can include prepaid real estate taxes in the new loan amount if those taxes are due within the 60 days prior to or 60 days following the closing date of the new loan. If such taxes are included in the new loan amount, an escrow account must be established.

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7.2.3. Delayed Financing Exception

Borrowers who purchased the subject property within the past six (6) months (from original purchase date to disbursement date of new loan) are eligible for a cash-out refinance if all the following requirements are met:

Fannie Mae Only

- 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 points (subject to the maximum LTV/CLTV/HCLTV ratios for the transaction based on the current appraised value). **More restrictive maximum LTVs may apply for borrowers with five to ten financed properties** ([see requirements for borrowers with 5-10 properties](#)).
- The purchase transaction was an arms-length transaction.
- The borrower(s) 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.
 - An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.
- The original 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.
 - The source of funds for the purchase transaction is documented (such as, bank statements, personal loan documents, HELOC on another property).
 - The preliminary title search or report must not reflect any existing liens on the subject property. If the source of funds to acquire the property was an unsecured loan or HELOC (secured by another property), the new HUD-1 must reflect that source being paid off with the proceeds of the new refinance transaction.

Note: Gift funds used to purchase the property cannot be reimbursed with the new loan proceeds.

- All other cash-out refinance eligibility requirements are met, and cash-out pricing is applied.

Note: Borrowers with five to ten financed properties are ineligible for cash-out refinance transactions on second homes or investment properties unless all of the requirements for Delayed Financing Exception are met.

[See requirements for borrowers with 5-10 properties.](#)

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- 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 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.
- 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 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, and
 - The payment on any remaining outstanding balance of the borrowed funds must be included in the debt payment-to-income ratio.
- 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

7.2.4. Subordinate Liens

If there is an existing subordinate lien on the property, the entire lien must be subordinated at refinance.

7.2.4.1. Calculation of the HCLTV Ratio

For transactions that have subordinate financing of an existing HELOC, the HCLTV ratio must be calculated to determine if the scenario meets guidelines. This is determined by dividing the sum of the items listed below by the lesser of the sales price or appraised value of the property:

- The amount of the new first mortgage,
- The full amount of any HELOCs (whether or not funds have been drawn), and
- The unpaid principal balance (UPB) of all closed-end subordinate financing.



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Note: For each subordinate liability, to accurately calculate the HCLTV ratio for eligibility and underwriting purposes, the maximum credit line for all HELOCs and the unpaid principal balance for all closed-end subordinate financing must be evaluated.

7.2.4.2. Permanently Modified HELOCs

If the HELOC has been permanently modified and the outstanding UPB is less than the permanently modified HELOC, the modified HELOC amount is used in calculating the HCLTV ratio for eligibility.

If the outstanding UPB is greater than the permanently modified HELOC, the amount of the outstanding balance is used to calculate the HCLTV ratio for eligibility purposes.

Note: In no case may the CLTV ratio exceed the HCLTV ratio.

7.2.4.3. Frozen HELOCs

If the HELOC has been frozen but not permanently modified, the total amount of the HELOC (not just the outstanding balance) must be used in calculating the HCLTV ratio.

7.2.5. Eligibility to Refinance

The Borrower is eligible to refinance the loan if, he/she has legal title, even if he/she is not originally on the note.

7.2.6. Property Tax Calculation

The following table lists the documentation requirements for obtaining property tax factors used in calculating the accurate monthly property tax used in qualification:

State	Required
Arizona	Order tax roll. Use the existing tax rate to calculate taxes. Arizona re-assesses once a year.
California	Order tax roll. Use the greater of 1.25% or current tax rate, plus any special assessments. With new construction and assessments are not available, use 1.25%.
Colorado	Order tax roll. Use the current "total tax" amount when qualifying the borrower. The only caveat is if the current seller has a senior exemption, then contact Colorado for the current tax rate. For new construction use .8% of sales price unless a more accurate number is available (must document).
Oregon	Order tax roll. Use the existing tax rate to calculate taxes. Use sales price or appraised value, whichever is greater.

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Utah	Order tax roll. Use the existing tax rate to calculate taxes. Utah re-assesses once a year. There are no supplemental taxes or transfer taxes in Utah.
Washington	Order tax roll. Use the current tax rate times the of the sales price or appraiser value, whichever is greater.

Order Tax Roll. Purchase Transactions (existing dwellings) - Use amount on tax rolls. Refinance Transactions - Use amount on tax rolls. New Construction - Use Appraised Value times (X) tax rate plus any assessments.

7.3. Conforming Transactions

Conventional conforming loans should be underwritten to the standards and guidelines for Fannie Mae or Freddie Mac unless otherwise indicated.

7.3.1. Product Codes

Code	Description
CF30	30 Year Fixed
CF30D	30 Year Fixed Direct
CF20	20 Year Fixed
CF15	15 Year Fixed
CF15D	15 Year Fixed Direct
CF10	10 Year Fixed

7.3.2. Eligible States

[Eligible States Matrix](#)

7.3.3. LTV/CLTV

[See Product Matrix](#)

7.3.4. Eligible Product Types

- Fixed Rated 30-, 20-, 15- and 10-year loans
- Fully Amortizing

7.3.5. Eligible Program Types

- Purchase
- Rate/Term Refinance
- Cash-out Refinance

7.3.6. Eligible Property Types

- 1 – 4 units
- SFR
- PUD

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- Condo
- Manufactured Homes

7.3.7. Interest Only

Not Allowed

7.3.8. Temporary Buydowns

Not Allowed

7.3.9. Maximum Loan Amount

[See Product Matrix](#)

7.3.10. Annual Mortgage Insurance

Mortgage Insurance is required for all loans exceeding 80% LTV. (Use the lesser of the sales price or appraised value to determine the appropriate coverage). The following MI options are available on transactions up to 97% LTV (check MI Company Guidelines for possible additional requirements):

- Borrower Paid MI (BPMI)
- Lender Paid MI (LPMI)
- Split Premium MI (SPMI)
 - Split Premium MI features an up-front premium along with a monthly premium (similar to an FHA loan).
 - Up-front premium may be paid utilizing Seller or Lender credit (or a combination).

Note: Currently MWF does not offer Financed Split Premium Coverage.

7.3.11. Delegated MI

MWF may utilize delegated approval for loans meeting the following criteria:

- LTV ≤ 97%
- Loan amounts ≤ \$453,100
- BPMI
- LPMI
- Blended Ratios not allowed
- Unique Property Conditions (i.e., non-permitted additions, accessory units, etc.) require underwriter review of the appraisal which may result, at the discretion of the underwriter, direct submission to the MI company for approval.
- See [Minimum Credit Scores](#) section.

Note: All loans not meeting the Delegated Approval requirements above will require prior approval from the Mortgage Insurance Company.

Note: MWF only utilizes approved MI Companies and approved MI forms/endorsements.



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7.3.11.1. Coverage

LTV	Coverage for ≤ 20 Years	Coverage for > 20 years
80.01% - 85.00%	6%	12%
85.01% - 90.00%	12%	25%
90.01% - 95.00%	25%	30%
< 95.00%	35%	35%

7.3.11.2. Acceptable MI Companies

Click on company name to be directed to the respective rate finder.

- [Radian](#)
- [MGIC](#)
- [Enact](#)
- [Essent](#)
- [National MI](#)

7.3.12. Credit

See [Minimum Credit Scores](#) section.

7.3.12.1. Non-Traditional

Not Allowed

7.3.12.2. Manual Underwriting

[See Manual Underwriting Section](#)

7.3.12.3. Derogatory Credit Waiting Period Requirements

See Conforming Standard [Derogatory Credit Waiting Period](#)

7.3.13. Income

7.3.13.1. Maximum DTI

AUS	Loan Type	Max DTI
DU	Fixed	50% regardless of AUS
LP	Fixed	50% regardless of AUS

- Non-occupant co-borrowers are allowed.
 - When allowed, the non-occupant co-borrower need not be a family member. There should be, however, an established relationship and motivation not including equity participation for profit.
 - MWF will follow AUS findings regarding non-occupant co-borrowers but generally DU analyzes the risk factors in the loan case file without the benefit of the non-occupant co-borrower's income or liabilities.

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7.3.14. Assets**7.3.14.1. Occupant Borrower Contribution - DU**[See Conforming DU Guidelines](#)**7.3.14.2. Minimum Reserves**

Property Type	Number of Units	1-4 Financed Properties	5-10 Financed Properties
Primary Residence	ALL	DU: Per AUS	
Second Home	1 Unit Only	Subject – per AUS 2 Months for each additional second home or investment property	Subject – per AUS 6 Months for each additional second home or investment property
Investment Property	1-4 Units	Subject – per AUS 2 Months for each additional second home or investment property	Subject – per AUS 6 Months for each additional second home or investment property

Additional Reserves Requirements:[Conversion of Principal Residence](#)**7.3.14.3. Minimum Borrower Contribution**

Property Type	LTV	Minimum Borrower Contribution
Primary Residence	> 80%	0%
Second Home		
Investment Property	ALL	20%

7.3.14.4. Interest Party Contributions

The maximum allowable contributions from interested parties are based on the lesser of the purchase price or appraised value.

Property Type	LTV/CLTV	Maximum Contribution
Primary Residence	> 90%	3%

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	> 75% ≤ 90%	6%
Second Home	> 90%	3%
	> 75% ≤ 90%	6%
Investment Property	ALL	2%

7.3.15. Impound Requirements

- California: Impounds required for loans with LTV ≥ 90%.
- All other: Impounds required for loans with LTV ≥ 80.01%.

7.3.16. Escrow/Impound Rollover

Allowed

7.3.17. Maximum Number of Financed PropertiesSee [Maximum Number of Financed Properties](#)**7.4. DU High Balance Transactions****7.4.1. Product Codes**

Code	Description
CF30J	30 Year Fixed DU High Balance

7.4.2. Eligible States[Eligible States Matrix](#)**7.4.3. LTV/CLTV**[See Product Matrix](#)**7.4.4. General Guidelines**

Standard Conventional Conforming Guidelines apply unless noted below.

7.4.5. Eligible Program Types

- Purchase
- Rate/Term Refinance
- Cash-out Refinance

7.4.6. Eligible Property Types

- 1 – 4 units
- SFR
- PUD
- Condo

7.4.7. Interest Only

Not Allowed



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7.4.8. Temporary Buydowns

Not Allowed

7.4.9. Maximum Loan Amount

- Maximum loan limits are determined by geographic area.
- High-Cost loan limits are available at:
- <https://entp.hud.gov/idapp/html/hicost1.cfm>
- Maximum Cash-out based on LTV and Max Loan Amount.

7.4.10. Annual Mortgage Insurance

See [Conforming MI Guidelines](#)

7.4.11. Credit

[See LTV Matrix](#)

7.4.11.1. Non-Traditional

Not Allowed

7.4.11.2. Manual Underwriting

Not Allowed

7.4.11.3. Derogatory Credit Waiting Period Requirements

[DU Derogatory Credit Waiting Period](#)

7.4.12. Income

7.4.12.1. Maximum DTI

- DU determines ratios – must receive an “Approve/Eligible” recommendation.

Non-occupant co-borrowers are allowed.

7.4.13. Assets

7.4.13.1. Occupant Borrower Contribution - DU

[See Conforming DU Guidelines](#)

7.4.13.2. Minimum Borrower Contribution

Property Type	LTV	Minimum Borrower Contribution
Investment Property	All	Entire Down payment

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7.4.13.3. Interested Party Contributions

The maximum allowable contributions from interested parties are based on the lesser of the purchase price or appraised value.

Property Type	LTV/CLTV	Maximum Contribution
Primary Residence	> 90%	3%
Second Home	> 75% ≤ 90%	6%
	≤ 75%	9%
Investment Property	ALL	2%

7.4.13.4. Gifts

- For all primary residences or second homes gift funds are allowed.
- Gift Funds are not allowed on Investment properties transactions.

7.4.14. Liabilities**7.4.14.1. Payoff or Paydown of Debt for Qualification**

[See Conforming Guideline.](#)

7.4.15. Impound Requirements

See [Conforming Impound Requirements](#)

7.4.16. Maximum Number of Financed Properties

- If the subject property is a Primary residence, there is no limit to the total number of properties owned or financed.
- If the subject property is an investment or second home, the maximum number of financed properties is limited to 4 total properties including primary.

7.5. LP Super Conforming**7.5.1. Product Codes**

Code	Description
CF30JLP	30 Year Fixed LP Super Conforming

7.5.2. Eligible States

[Eligible States Matrix](#)

7.5.3. LTV/CLTV

[See Product Matrix](#)

7.5.4. General Guidelines

Standard Conventional Conforming Guidelines apply unless noted below

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7.5.5. Eligible Program Types

- Purchase
- Rate/Term Refinance
- Cash-out Refinance

7.5.6. Eligible Property Types

- 1 – 4 units
- SFR
- PUD

7.5.7. Interest Only

Not Allowed

7.5.8. Temporary Buydowns

Not Allowed

7.5.9. Ineligible Transactions

- Permanent financing of an interim construction transaction
- Condominium property type
- Cooperative property type
- Leaseholds
- Mortgage Credit Certificates (MCC)

7.5.10. Maximum Loan Amount

- Maximum loan limits are determined by geographic area.
- High-Cost loan limits are available at:
- <https://entp.hud.gov/idapp/html/hicost1.cfm>
- Investment transactions purchased via an auction require 5 percent LTV/CLTV reduction from maximum financing.
- Maximum loan amount \$1,000,000.00 (2-4 units)
- Maximum Cash-out based on LTV and Max Loan Amount

7.5.11. Annual Mortgage Insurance

See [Conforming MI Guidelines](#)

7.5.12. Credit

See [Minimum Credit Scores](#) section.

7.5.12.1. Non-Traditional

Not Allowed

7.5.12.2. Manual Underwriting

Not Allowed

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7.5.12.3. Derogatory Credit Waiting Period Requirements
[LP Derogatory Credit Waiting Periods](#)
7.5.13. Income**7.5.13.1. Maximum DTI**

- LP determines ratios – must receive an “Accept” recommendation.
- DTI can NOT exceed 50% regardless of LP Approval.

Non-occupant co-borrowers are allowed.

- Blended ratios are acceptable:
 - 43% maximum blended ratio when utilizing non-occupant co-borrower.

7.5.14. Assets
7.5.14.1. Occupant Borrower Contribution - LP
[LP Waiting Periods](#)
7.5.14.2. Minimum Borrower Contribution

Property Type	LTV/CLTV	Minimum Borrower Contribution
Primary & 2 nd Home	≤ 80%	0%
Primary & 2 nd Home	> 80%	Entire Down payment
Investment Property	All	Entire Down payment

7.5.14.3. Interest Party Contributions

Property Type	Maximum Contribution
Primary Residence Second Home	3%
Investment Property	2%

7.5.14.4. Gifts

- Primary and Second Homes (Provided borrower's required contribution is met).
- Gift Funds are not allowed on Investment properties transactions.



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7.5.15. Liabilities

7.5.15.1. Payoff or Paydown of Debt for Qualification

[See Conforming Guideline.](#)

7.5.16. Impound Requirements

See [Conforming Impound Requirements](#)

7.5.17. Maximum Number of Financed Properties

Maximum # Financed Properties	
Primary	Unlimited
Second Homes & Investment	4

7.6. Escrow Withholds

MWF will allow Escrow Withholds under limited circumstances for repairs to the property that cannot be completed prior to the close of escrow. The Withhold Agreement is required to be completed in its entirety.

- Maximum allowable repairs not to exceed \$5,000 (including MWF Fees).
- MWF will charge a final inspection fee(s) to ensure the completion of the work.
- There must be a minimum of 2 bids from licensed contractors in the designated field for all work to be completed (the higher of the two bids will be used to determine the cost of repairs).
- MWF requires a withhold of 1 ½ times the amount of the highest bid or \$1,000, whichever is greater.
- All escrow withholds must be approved in advance by a MWF Underwriting Manager or designee.
- Secondary Marketing MUST be notified of the Withhold Approval.
- All parties involved in the withhold must sign the MWF withhold agreement.
- All required repairs must be completed within 14 days of closing. If repairs are not completed within 14 days, MWF is authorized to use the allotted money from the withhold to have all repairs completed.
- Funds will be released when the satisfactory final inspection (1004D) has been received.
- The loan lock period has to cover the withhold period. Should the lock expire prior to the withhold being completed, MWF will charge the required lock extension fee(s) to the branch.
- The Escrow Withhold Agreement must be completed in its entirety.
- Broker compensation will be held and released upon proof of work completion.

7.6.1. Eligible Products

- Standard Conventional Conforming

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7.6.2. Ineligible Products/Features

- Manufactured Homes
- High Balance
- Jumbo

7.6.3. Ineligible Repairs with Escrow Withholds

- Structural repairs.
- Foundation work.
- Roofs.
- Items creating a livability issue such as health and safety.
- Under no circumstances may a loan be closed if the uncompleted items affect livability or the integrity of the structure (i.e., lack of gas, electricity, or plumbing, HVAC or foundation defects).

Note: Inaccessible properties require an inspection prior to withhold approval.

7.7. Fannie Mae Solar Panel Guidelines**Properties with Solar Panels**

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- Borrower-owned panels,
- Leasing agreements,
- Separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- Power purchase agreements.

If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title).

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible.



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Lenders are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, lenders may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan. The lender must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the lender obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

Note: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

Lenders are responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing.

The following table summarizes some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

If the solar panels are...	Then the lender must...
Financed and collateralized -- the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records	<ul style="list-style-type: none"> Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan. Include the debt obligation in the DTI ratio calculation. Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing* is of record in the land records. Note: If a UCC fixture filing* is in



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	the land records as a priority senior to the mortgage loan, it must be subordinated.
Financed and collateralized -- the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report	<ul style="list-style-type: none"> • Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statement, related promissory note or related security agreement). • Include the debt obligation in the DTI ratio calculation. • Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt. • Not include the panels in the LTV ratio calculation; and • Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement or any UCC financing statement treat the panels as personal property not affixed to the home.

*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage. If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

✓	Lender Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement
	The lender must obtain and review copies of the lease or power purchase agreement.
	The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to provide delivery of a specific amount of energy at a fixed payment during a given period, and have a production guarantee that



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	<p>compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.</p> <p>Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.</p>
	<p>The value of the solar panels cannot be included in the appraised value of the property.</p>
	<p>The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.</p> <p>Note: A “precautionary” UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it. When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.</p>
	<p>The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.</p>
	<p>The property must maintain access to an alternate source of electric power that meets community standards.</p>
	<p>The lease or power purchase agreement must indicate that</p> <ul style="list-style-type: none"> Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner’s property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner’s property insurance policy; and In the event of foreclosure, the lender or assignee has the discretion to: <ul style="list-style-type: none"> Terminate the lease/agreement and require the third-party owner to remove the equipment.



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- | | |
|--|--|
| | <ul style="list-style-type: none"> ○ Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or ○ Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner. |
|--|--|

7.8. HomeStyle Energy Program

[See Product Matrix](#)

7.8.1. Loan Purpose

Limited cash-out refinance

7.8.2. Occupancy And Property Eligibility

- All one- to four-unit existing properties are eligible except manufactured homes.
- All occupancy types are permitted.

7.8.3. Pay Off Existing Debt

Limited cash-out refinances may include the payoff of existing financing incurred for prior energy improvements made to the property (such as PACE & HERO liens, unsecured loans, or credit card debt).

7.8.4. Other Requirements

- Obtain documentation to determine the amount of funds used for energy improvements that are eligible to be refinanced.
- Obtain an Energy Report for refinancing of any non-PACE/HERO debt to determine that the improvements made were part of a cost-effective energy improvement upgrade.
- Obtain an appraisal report that indicates that the improvements or upgrades were completed.

7.8.5. Underwriting

- DU Approve/Eligible
- DU Approve/Ineligible
- No Manual Underwrites
- Because DU cannot determine if the loan casefile contains energy-related features, DU will not issue any specific messages related to HomeStyle Energy.
- Disregard the "ineligible" recommendation from DU that may result if the borrower pays off unsecured loans or credit card debts (for prior energy improvements) that exceed the limited cash-out 2%/\$2,000 maximum cash-back policy.

7.8.6. Special Feature Code

SFC 375 must be used

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8. Specific Property Types - Eligible Products**8.1. Deed Restrictions**

A Deed Restriction can be identified by reviewing the preliminary Title report. Some common items reflected on the preliminary title report that might indicate that there is a deed restriction, include:

- Deed Restriction
- Affordable Housing
- Declaration of Restrictions
- Regulatory Agreement

Note: The list above is for example purposes only and is not intended to be all inclusive.

A deed restriction checklist has been developed to assist in determining whether or not the restriction is within investor guidelines.

To complete the checklist, the Underwriter must obtain a copy of the deed restriction document for review.

Additionally, the following two special feature codes are associated with Deed Restrictions and must be input into MLM.

- SFC 630 is used if the deed restriction terminates automatically upon foreclosure
- SFC 631 is used if the deed restriction survives foreclosure.

Note: If any Deed Restrictions do not meet the guidelines in this checklist, the property is ineligible for financing.

8.1.1. Eligible Transaction Type

- Owner Occupied
- 2nd Homes
- Investment Properties
- Purchase
- Rate/Term Refinance
- 1 or 2 Unit: SFR, Condo, PUD

8.1.2. Group Homes – Fannie May Only

Group homes are residential structures utilized for occupancy by persons with disabilities (irrespective of familial relationship) and are not considered to be boarding houses.

Occupancy Types

Eligibility and pricing for group homes will be the same as currently provided under the terms and conditions established for principal residence, second home, or investment properties depending on the occupancy status of the borrower(s). Investment properties that are or will be leased to business entities for use as a

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group home are eligible for purchase by Fannie Mae (provided all borrowers are individuals)

Note: Group homes are not considered to be boarding houses. They are an eligible property type, including when leased to a business entity for use as a group home.

8.1.3. Ineligible Resale Restrictions

- Resale restrictions providing for shared equity or shared appreciation are not eligible. Exceptions can be made on a case-by-case basis, although the rate lock would be based on Agency Direct pricing.
- Properties that are “group homes” or primarily serve disabled residents are not eligible.
- If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.
- If the resale restrictions survive foreclosure, the resale restrictions cannot impair the MWF’s ability to foreclose on the restricted property.
- If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu of foreclosure.
- Mortgages secured by manufactured homes, co-op projects, and 3–4-unit properties are not eligible.

8.1.4. Properties Subject to Age Restrictions

If a housing development has an age restriction, it must comply with one of the following Fair Housing Act exemptions:

8.1.4.1. Age Restrictions - Any Age Restriction

The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended and operated for occupancy by persons 55 years of age or older provided that all of the following apply:

- At least 80% of the occupied units are occupied by persons 55 years of age or older; and
- The housing facility or community publishes and adheres to policies and procedures that demonstrate the intent to provide housing to persons 55 years of age or older; and
- The housing facility or community can provide documentation for verification of occupancy, by means of:
 - Reliable surveys and affidavits.
 - Examples of published written policies and procedures for determination of compliance with the Fair Housing Act.

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8.1.4.2. Required Documents for Age Restricted Properties

When it is determined that a housing development is subject to age restrictions, the Homeowners Association must complete and sign the form Housing Developments Subject to Age Restrictions). By signing this form, the association certifies that the housing development is in compliance with the Fair Housing Act.

- The fully executed form must be included in the underwriting package.

8.2. Manufactured Home Transactions**8.2.1. Product Codes**

Code	Description
CF30	30 Year Fixed
CF15	15 Year Fixed

8.2.2. LTV/CLTV

[See Product Matrix](#)

8.2.3. Definition

Any dwelling unit built on a permanent chassis and attached to a permanent foundation system is a "manufactured home" for purposes of Fannie Mae's guidelines.

8.2.4. Maximum Acreage

Limited to 10 Acres

8.2.5. Ineligible Manufactured Housing Terms/Products

The following loan terms/occupancy/land ownership types are ineligible for mortgage loans secured by manufactured homes:

- Temporary buydowns
- Investment properties
- Single-wide manufactured homes
- Homes located on leasehold estates
- Jumbo loans
- High Balance loans
- 40-year loan terms
- FHA 203k loans

All other Fannie Mae guidelines not addressed will apply

8.2.6. Manufactured Condo

See [Condo Projects Comprised of Manufactured Homes](#) section

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8.2.7. Cash-out Transactions

Only terms of 20 years or less. Fixed Rate only.

8.2.8. Credit Score

- See [Minimum Credit Scores](#) section.

8.2.9. DTI

- Determined by AUS.
- Must receive an AUS approval. No manual underwriting allowed.

8.2.10. Appraisal

Manufactured Home Appraisal Report—Fannie Mae Form 1004C for an appraisal of a one-unit manufactured home based upon an interior and exterior inspection. A minimum of 2 manufactured home comparables are required. Our online appraisal order form in MAX has been updated to reflect Manufactured Home as a property type choice and a product type choice.

8.2.11. Pricing

See the Capital Markets Department for current pricing for this product.

8.2.12. Property Eligibility

- Be constructed after June 15, 1976, in conformance with the Federal Manufactured Home Construction and Safety Standards, as evidenced by an affixed certification label in accordance with 24 CFR 3280.11 (manufactured homes produced prior to that date are ineligible for financing).
- The housing unit must NOT have been previously installed (or occupied at any other site or location), except from the manufacture or dealer's lot as a new unit.
- The mortgage must cover both the manufactured unit and its site and shall have a term of not more than 30 years from the date amortization begins.
- Designed to be used as a dwelling with a permanent foundation.
- Manufactured home to be a double-wide or larger.
- Built and remains on a permanent chassis.
- The manufactured home must be a one-family dwelling that is legally classified as real property. The towing hitch, wheels, and axles must be removed, and the dwelling must assume the characteristics of site-built housing. The land on which the manufactured home is situated must be owned by the borrower in fee simple unless the manufactured home is located in a condominium project. Loans secured by manufactured homes located on leasehold estates are not eligible.
- Homes may be located either on an individual lot or in a project development (i.e., condominium, PUD, or subdivision).
- Must have a minimum of 600 square feet of gross living area.
- Must be permanently connected to a septic tank or sewage system and to other utilities in accordance with local and state requirement.

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- 8.2.12.1. Foundation Systems**
See state specific requirements below.
- 8.2.12.2. Modifications To Subject Property**
Manufactured homes that have an addition or structural modifications are eligible ONLY if the modifications were permitted and an engineering cert, certifying that any structural changes were made in accordance with HUD safety standards, has been received by MWF.
- 8.2.12.3. Perimeter Enclosures**
The space beneath manufactured homes must be properly enclosed. The perimeter enclosure shall be a continuous wall (weather bearing or non-load bearing) that separates the crawl space from backfill and keeps out vermin and water. The enclosure must be adequately secured to the perimeter of the unit and allow for proper ventilation of the crawl space. Accordingly, for:
- 8.2.12.4. New Construction**
Additional requirements apply per agency guidelines.
- 8.2.13. State Specific Manufactured Home Requirements**
In addition to the standard investor and/or agency product requirements for manufactured homes, the following state specific forms are required to document the transfer of the unit to real property:
- 8.2.13.1. Arizona**
The State of Arizona requires the following documentation:
- [Affidavit of Affixture.](#)
- 8.2.13.2. California**
The State of California requires the following documentation:
- [433a - Notice of manufactured home installation on a foundation system.](#)
- 8.2.13.3. Colorado**
The State of Colorado requires the following documentation:
- [Affidavit of Real Property for Manufactured Homes](#)
 - [Certificate of Permanent Location for a Manufactured Home](#)
- 8.2.13.4. Nevada**
The state of Nevada requires the following documentation:
- Affidavit of Conversion
- 8.2.13.5. Oregon**
The State of Oregon requires the following documentation:

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- [Application & Certification Exempting Manufactured Structure from Ownership](#)

8.2.13.6. Utah

The State of Utah requires the following documentation:

- Copy of Recorded State of Utah Form TC -672 (Affidavit of Permanently Affixed Manufactured Home AND Receipt of Surrender of Title. <https://utahhousingcorp.org/pdf/Form191.pdf>.

8.2.13.7. Washington

The State of Washington requires the following documentation:

- Manufactured Home Application ([Application](#) & [instructions](#)).

8.2.14. Calculating the LTV Ratio for Manufactured Home Subdivisions – FANNIE ONLY

To encourage development of manufactured home subdivisions as an affordable housing option, Fannie Mae requires the calculation of LTV ratio (CLTV and HCLTV if applicable) for purchase transactions on an existing manufactured home as follows:

- When an existing manufactured home is being sold to a consumer by a builder, developer, or manufacturer acting as a developer as part of a new or existing manufactured home subdivision, the LTV ratio will be based on the lower of:
- The sales price of the manufactured home and land, or
- The current appraised value of the manufactured home and land.

8.2.15. Manufactured Homes with Affordable Seconds Eligibility – FREDDIE ONLY

Freddie Mac will consider the following requirements for Manufactured Homes with Affordable Seconds:

- The manufactured home must be a 1-unit Primary Residence.
- The mortgage must be a Home Possible Mortgage
- If the manufactured home is in a condominium project, the applicable condominium project guide requirements must be met.

Note: Mortgages with affordable seconds will not be assessed the Secondary Financing Credit Fee in Price.

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8.3. MH Advantage**8.3.1. MM Advantage Property Eligibility Requirements**

MH Advantage is manufactured housing that is built to meet construction, architectural design, and energy efficiency standards that are more consistent with site-built homes. Note that loans secured by MH Advantage properties are afforded a number of flexibilities over standard manufactured housing, including higher LTV ratios, standard mortgage insurance, and reduced loan-level price adjustments.

Examples of the physical characteristics for MH Advantage Include:

- Specific architectural and aesthetic features such as distinctive roof treatments (eaves and higher pitch roofline), lower profile foundation, garages or carports, porches, and dormers.
- Construction elements including durability features, such as durable siding materials; and
- Energy efficiency standards (minimum energy ratings apply).

Fannie Mae has agreements with manufacturers of homes intended to qualify for MH Advantage based on specific design criteria. The agreement allows the manufacturers to apply an MH Advantage Sticker to homes that meet the design criteria. With the exception of the lender requirements outlined below, lenders will not be required to independently determine property's eligibility for MM Advantage.

8.3.2. Property Requirements

- Ensure that the property meets the MH Advantage requirements by reviewing appraisal photos evidencing the presence of the MH Advantage Sticker (placed in proximity to the HUD Data Plate), HUD Data Plate, and HUD certification labels.
- Verify the following through appraisal or final inspection photos
 - The presence of a driveway leading to the home (or to the garage or carport if one is present). The driveway must consist of blacktop, pavers, bricks, concrete, cement, or gravel, and.
 - The presence of a sidewalk connecting either the driveway, or a detached garage or carport, to a door or attached porch of the home. The sidewalk must consist of blacktop, pavers, flagstone, bricks, concrete, or cement.

8.3.3. Appraisal Requirements

The Manufactured Home Appraisal Report (Form 1004C) or Appraisal Completion Report (Form 1004D) must include photos of the MH Advantage Sticker, HUD Data Plate, HUD Certification Labels, and the site showing all driveways, sidewalks, and detached structures located on the site.

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8.3.4. MH Advantage Appraisal Comparable Selection Requirements

For MH Advantage properties, appraisers must use other MH Advantage homes, when available, for the comparable sales. If fewer than three MN Advantage sales are available, then the appraiser must supplement with the best and most appropriate sales available, which may include site-built homes.

Unless stated otherwise, loans secured by manufactured homes that meet the MM Advantage criteria are subject to the same requirements that apply to all manufactured homes.

8.4. Condominium Projects

In addition to the condo review options reflected in this section, Fannie Mae and Freddie Mac published project guidelines are acceptable. Fannie Mae's project acceptance processes, including Condo Project Manager, are allowed with Conforming DU Loans and per the terms of Freddie Mac's Seller/Service Guide (Chapter 42.11) for Conforming LP Loans.

This section provides guidelines for evaluating new and existing condominium projects. The intent of the project review is to assess the marketability and long-term stability of the project. Current market conditions and comparable sales on the appraisal provide information on the subject property's marketability.

The following condominium project guidelines and documentation requirements are applied in addition to the standard property appraisal review guidelines:

8.4.1. General Condo Eligibility Requirements

The following guidelines apply to all condominium projects. Project information may be reported by the appraiser or obtained through review of the Homeowners Association Certificate as well as from other types of condominium documents.

Note: 51 owner occupancy in the project is required if the subject property transaction is for an investment property.

8.4.2. Ineligible Projects

Ineligible projects are as defined by Fannie Mae and Freddie Mac and reference to those Agencies' published guidelines should be made for specific details.

The following are characteristics within resort destination areas that should be utilized to identify projects that are ineligible:

- Projects with HOA litigation ([see section for "litigation"](#)).
- Voluntary or mandatory revenue sharing agreements.
- Mandatory rental pool agreements.
- Occupancy restrictions mandated by the zoning.
- Timeshare, live/work or segmented ownership projects.

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- Transactions under which the borrower will own more than one unit in the project.
- Units less than 600 sq. ft.
- The project name includes "hotel", "motel", "inn", "resort" or "lodge."
- The project shares facilities with a hotel or motel.
- The project is in an area zoned primarily for transient accommodations.
- The unit is in a building that functions like a traditional condominium, yet the project contains additional resort type amenities or other buildings with resort type amenities.
- The unit is fully furnished.
- The unit does not have a full kitchen.
- The project provides any of the following services:
- Management Desk
 - Bellman
 - Daily Maid Service
 - Food Service
 - Telephone Service
 - Centralized Utilities (e.g., central telephone or cable)
 - Centralized Key System not in Negotiated Terms

8.4.3. Completion

All common areas and amenities within the project (or subject phase) must be complete. If completion is in question, obtain the Final Certification of Substantial Completion (FNMA 1081) or equivalent document (appraisal addendum, builder's certification, etc.), which lists the common amenities and facilities that are incomplete.

All condominium projects having incomplete items are not eligible for the HOA Certification.

8.4.4. Single Entity Ownership in a Project

Properties in a project where a single entity (the same individual, investor group, partnership or corporation) owns more than the following total units in the project, the project is ineligible for financing:

Fannie Mae

- Projects with 5 - 20 units = 2 units
- Projects with 21+ units = 20%

Freddie Mac

- Project with 2 - 4 units = 1 unit
- Project with 5 - 20 units = 2 units
- Project with 21+ units = 25%.

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8.4.5. 2-4 Unit Project

- No single entity may own more than one unit within the project.
- All units, common elements, and facilities within the project, including those that are owned by any master association, must be 100% complete.
- All but one unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers; and
- All units in the project must be owned in fee simple or leasehold, and the unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.

8.4.6. Commercial Use

Commercial use within the project may not exceed 20 of the total square footage for the project and should be compatible with residential use.

8.4.7. Right of Refusal

Any right of first refusal in the project's constituent documents will not impair the rights of a first mortgagee to:

- Foreclose or take title to a condominium unit pursuant to the remedies contained within the security instrument.
- Accept a deed in lieu of foreclosure in the event of default by a mortgagor.
- Sell or lease a unit acquired by the mortgagee.

8.4.8. Adverse Environmental Factors

Any adverse environmental factors affecting the condominium project must be addressed by the appraiser.

Any factors affecting safety, habitability or marketability of the unit or project will render the project ineligible.

8.4.9. Litigation

If the lender determines that pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, the project is eligible provided the litigation meets one or more of the following:

- Non-monetary litigation including, but not limited to neighbor disputes or rights of quiet enjoyment.
- Litigation for which the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance.
- The HOA or co-op corporation is the plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project.
- The reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves.

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- The HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA or co-op corporation if funds are not recovered.

Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or

- The HOA or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA or co-op assessments.

Litigation that involves personal injury or death does not meet the criteria for minor litigation unless:

- The claim amount is reasonably anticipated or known,
- The insurance carrier has agreed to provide the defense, and
- The reasonably anticipated or known damages are covered by the HOA's or co-op corporation's insurance.

Construction defect litigation in which the HOA or co-op corporation is the plaintiff are not considered a minor matter unless the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced. In addition, there is no anticipated material adverse impact to the HOA or co-op if the funds are not recovered.

Documentation must be obtained to support its analysis that the litigation meets the criteria for minor litigation as described above.

Note: MWF to review all litigation prior to loan approval.

8.4.10. Delinquent HOA Dues

If more than 15% of the units are delinquent on their HOA dues, the project is ineligible for financing.

In the event the mortgagee acquires a unit through foreclosure or deed-in-lieu, the mortgagee may not be responsible for more than 6 months of delinquent HOA dues.

8.4.11. Priority of Common Expenses (HOA)

Fannie Mae allows a limited amount of regular common expense assessments (typically known as homeowner association or HOA fees) to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo project or planned unit development (PUD).

No more than the greater of six months or, if applicable, the maximum amount permitted under applicable state law of delinquent HOA dues may have priority over Fannie Mae's mortgage lien (not to exceed 9 months).

AZ, CA, CO, OR, NV, & WA meet FNMA requirements with regard to priority status for first lien loans. Additional eligibility requirements:

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- If the HOA indicates on a non MWF certification that more than 6 months dues can be collected against the lender and/or have priority over the lender's lien, the Underwriter is responsible for reviewing the relevant documents and appropriately documenting the file regarding why it is acceptable to proceed before going forward with the transaction.
- Any recorded declaration or lien by the HOA must be paid in full & the lien extinguished as a condition of the loan.
- Title must ensure that HOA fees are current and show as such at closing on the HUD-1 is required as a condition of the loan.
- If the CC&Rs state that the HOA assessments are subordinate to a first lien lender's deed of trust, then reference that in the Underwriter's LOE.

8.4.12. Insurance Requirements

A Master Policy as well as HO6 coverage.

8.4.13. Pooled Insurance

Any project identified with a pooled insurance policy is ineligible.

8.5. Detached Condominiums

The condo project must meet the definition of a detached condo project, which is a condo project comprised solely of detached, 1-unit dwellings.

Units in projects with the following characteristics do not require any project approval or review.

- The mortgage is secured by a single detached unit in a condo project.
 - Project must be an eligible project.
- New projects require at least one detached condo unit comparable sale, located in a competing project or the subject project.
- Title insurance policy must satisfy Fannie Mae's special title insurance requirements for units in condo projects.
- Insurance Requirements:
 - Must be covered by the type of hazard and flood insurance coverage required for single-family detached dwellings, if the condo unit consists of the entire structure as well as the site and air space, or
 - The project's master hazard and flood insurance policies, if the condo unit consists only of the air space for the unit and the improvements and site are considered to be common areas or limited common areas.
- SFC 588 is required when delivering detached condo units.

8.6. Condo Projects Comprised of Manufactured Homes

All condo projects, including detached units, which are comprised of manufactured homes must be on Fannie Mae approved project list. Limited review is not allowed.

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8.7. Planned Unit Developments

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units.

In order for a project to qualify as a PUD, each unit owner's membership in the HOA must be automatic and non-severable, and the payment of assessments related to the unit must be mandatory.

Zoning is not a basis for classifying a project or subdivision as a PUD.

Fannie Mae classifies PUD projects as Type E, established PUD projects, when the developer has turned over voting control of the HOA to the unit purchasers. New PUD projects are classified as Type F if the developer has not turned over voting control of the HOA to the unit purchasers.

A project review is not required if the property is a detached unit within a PUD.

When reviewing a PUD project with attached units (whether new or established), the project must meet the following requirements:

8.7.1. Attached PUDs

- The project does not consist of single width manufactured housing units.
- The individual unit securing the mortgage satisfies Fannie Mae's insurance requirements for PUD projects.
- The individual unit securing the mortgage is 100% complete.

Sources for project information include, but are not limited to, appraisers, homeowners' associations, co-op corporations, management companies, real estate brokers, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

Note: Appraisers must provide accurate descriptions of projects and include any characteristics that may be an indication that the project is ineligible.

8.7.2. Priority of Common Expenses (HOA)

See [Common Expenses section](#) under condominiums above.

9. Appendix**9.1. MWF Inter Vivos Revocable Trust Lending California**

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9.1.1. Definition

An Inter Vivos Revocable Trust (also known as a Family Trust or Inter Vivos Trust) is a Trust whose terms become effective while the person who creates the Trust (also called the Settlor, Grantor or Trustor) is still alive and because it is revocable in the sense that the Trust can be changed or cancelled at any time for any reason during the Settlor's lifetime. The Trust becomes the legal owner of property, investments, and assets in a process called funding. Those assets are used for the benefit of another person, called a Beneficiary. A Trustee manages the Trust and has legal capacity to act on the Trust's behalf according to the terms of the Trust.

9.1.2. Key Compliance Components

- Must be an Inter Vivos Revocable Trust
- One borrower (credit applicant) must be a Settlor, Trustee & Beneficiary
- Title to the property must be vested solely in the Trust or in the trust and an individual not a party to the Trust
- Trustees must have the authority under the Trust documents to mortgage the real property securing the loan
- All Trustees must sign the Notice of Right to Cancel, initial TIL and final TIL
- MWF California Certification of Trust (notarized and signed by all Trustees) or acceptable Attorney's Opinion Letter is required
- Property and Trust must be in California

9.1.3. Trust Requirements

Inter Vivos Revocable Trusts are the only types of Trusts that are acceptable under MWF guidelines. Other types of Trusts such as Nominee, Irrevocable or Testamentary Trusts are not eligible.

A loan transaction where title to the real property is vested in an Inter Vivos Revocable Trust is eligible for financing under MWF policy as long as the Trust has been established in the State of California, has complied with local and state regulations and the transaction meets the following criteria:

- There must be a borrower (credit applicant) and a validly existing Trust
- At least one borrower (credit applicant) must be a Settlor, Trustee & Beneficiary. This person is considered the Primary Borrower. In the case of an owner-occupied property, this Primary Borrower must occupy the mortgaged property, become personally liable on the Note and acknowledge the security instrument as Settlor
- All Settlers are required to sign the Inter Vivos Revocable Trust as Borrower Acknowledgement to the security instrument
- All parties whose income or assets will be used to qualify for the mortgage loan must sign the Note
- If the Trust is established jointly, there may be more than one Primary Beneficiary as long as the income or assets of at least one of the individuals establishing the Trust will be used to qualify for the mortgage loan

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- The Trustee(s) must have the power under the terms of the Trust to mortgage the real property that will secure the mortgage loan

9.1.4. Eligible Property and Occupancy Types include

- 1-4 Unit Dwelling (Owner Occupied or Non-Owner Occupied)
- 1 Unit Second Home

9.1.5. Eligible Programs

- Conventional
- FHA
- USDA
- VA

9.1.6. Documentation Requirements

- Copy of Trust document
- MWF California Certification of Trust executed by the Trustee or an acceptable attorney opinion letter. If using an attorney opinion letter, it must verify at a minimum the following:
 - The Trust was validly created and is duly existing under applicable law
 - The Trust is revocable
 - The borrower (credit applicant) is the Settlor of the Trust and the Beneficiary of the Trust
 - The Trust assets may be used as collateral for a loan
 - The Trustee is:
 - Duly qualified under applicable law to serve as Trustee,
 - Is the borrower,
 - Is the Settlor,
 - Is fully authorized under the Trust documents and applicable law to pledge or otherwise encumber the Trust assets

9.1.7. Signature Requirements

The examples of signatures shown below are appropriate for California transactions only. Under California law, the term “Settlor” refers to the individual(s) establishing the Trust; therefore, MWF uses this terminology in the signature examples. MWF has also used the term “credit applicant” to refer to an individual whose income and assets are used to qualify for the transaction.

- All borrowers (credit applicants) must execute the Note individually (if there are any co-signers, each co-signer must also execute the Note as an individual)
- All borrowers who are named as Trustee must execute the Note as Trustee
- The full title of the Trust including the date the Trust was established must appear below the signature line for every Trustee

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Example Trust Signature Information:

For this example, assume Sally Smith is the Trustor, Trustee and the Settlor of the Sally Smith Family Trust, Dated January 1, 2000. Sally will be using her income and assets to qualify. Title is vested 100% in the Trust.

Also assume Joe Smith is a Trustee, but not a Settlor and will not be a borrower (credit applicant) on the loan transaction.

Note Agreement (aka Note) Signatures:

The Note must be signed individually by the borrower(s) (credit applicant(s)) whose income and assets were used to qualify for the loan and by all Trustees.

Signature example on the Note for Joe Smith, a Trustee who is not a Settlor and is not a Credit Applicant:

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Note: Joe Smith is signing his / her name as Joe Smith, and it is dated as of the date the loan documents are signed. Nothing else should be added to his signature. For example, the signature should not be Joe Smith Trustee or anything similar – just have Joe sign his name.

Typed below the signature line is Joe Smith's name and the Trust information.

Signature example on the Note for Sally Smith, who is a Trustee, Settlor and a borrower (credit applicant):

Sally Smith 1/1/2013

Sally Smith, Individually and as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Note: Sally Smith is signing her name individually as the borrower (credit applicant) and on behalf of the Trust as Trustee at the same time.

Addendum to Note - Inter Vivos Trust (aka Trust Addendum) Signatures:

The Trust Addendum to the Note is signed by Sally Smith individually and as Trustee on one line and on a separate line as a Settlor. Joe Smith signs as Trustee. See the formats for these signatures below.

Sally Smith 1/1/2013

Sally Smith, Individually and as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Sally Smith 1/1/2013

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Revocable Trust Settlor –Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Deed of Trust and PUD, 1-4, Condo Riders Signatures:

The Deed of Trust, PUD, Condo and 1-4 Family Riders are signed by Sally Smith as Trustee and Joe Smith as Trustee in the formats shown below. Remember, title is fully vested solely in the Trust for this example.

Sally Smith 1/1/2013

Sally Smith, as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Inter Vivos Revocable Trust as Borrower Acknowledgement to the Deed of Trust:

This document is signed by Sally Smith as Settlor. The format for this signature is as follows:

Sally Smith 1/1/2013

Revocable Trust Settlor -Sally Smith

Inter Vivos Revocable Trust Rider to Deed of Trust:

This document is signed by Sally Smith as Settlor and Trustee. Joe Smith signs as Trustee. The formats for these signatures are as follows:

Sally Smith 1/1/2013

Sally Smith, as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Sally Smith 1/1/2013

Revocable Trust Settlor -Sally Smith

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Federal Truth-in-Lending & Itemization of Amount Financed (Initial & Final):

These documents are signed by Sally Smith as borrower (credit applicant) and Trustee. Joe Smith signs as Trustee.

Sally Smith 1/1/2013

Borrower-Sally Smith

Sally Smith 1/1/2013

Sally Smith, as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Notice of Right to Cancel (Refinance Transactions):

The Notice of Right to Cancel is signed by Sally Smith as borrower (credit applicant) and Trustee. Joe Smith signs as Trustee.

Sally Smith 1/1/2013

Borrower-Sally Smith

Sally Smith 1/1/2013

Sally Smith, as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

9.1.8. Title and Title Insurance Requirements

- The title to the property is vested solely in the Trust (or Trustee on behalf of the Trust) or in the Trust and an individual not a party to the Trust.
- Title insurance may not contain any exceptions to coverage based on the mortgaged property being in the living Trust (note: the title insurance company will require their own separate certification of Trust from the Trustee).

9.1.9. Attorney Title Opinion Letter – Fannie Mae ONLY

A lender may use an attorney title opinion letter in lieu of a title insurance policy if all of the conditions in the following table are satisfied:

The attorney title opinion letter must...
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<ul style="list-style-type: none"> Be addressed to the lender and all successors in interest of the lender.
<ul style="list-style-type: none"> Provide the following statement: We [I] agree to indemnify you and your successors in interest in the [mortgage] [deed of trust] opined hereto to the full extent of all losses attributable to a breach of our [my] duty to exercise reasonable care and skill in the examination of the title and giving of this opinion.
<ul style="list-style-type: none"> Provide the gap coverage for the period of time between the loan closing and the recordation of the mortgage.
<ul style="list-style-type: none"> State that the title condition of the property is acceptable, and the mortgage constitutes a lien of the required priority on a fee simple estate in the property.
<ul style="list-style-type: none"> List other liens and state that they are subordinate.
<ul style="list-style-type: none"> Be given by an attorney licensed to practice law in the jurisdiction where the subject property is located. The attorney must also be insured against malpractice in rendering opinions of title in an amount commonly prevailing in the jurisdiction, taking into account the volume of opinions rendered by the attorney.
<ul style="list-style-type: none"> Be commonly acceptable in lieu of title insurance by private institutional mortgage investors in the area where the subject property is located.
<ul style="list-style-type: none"> Include language relating to the coverage normally provided by ALTA Endorsement 8.1 (Environment Protection Lien). Section (a) of the endorsement ensures that there are no environmental protection liens filed in the public records that have priority over the lien of the insured mortgage; Section (b) ensures that there are no state statutes that provide liens filed after the date of the policy would have priority over the lien of the insured mortgage. An attorney may include an exception for possible subsequent super liens that could take priority over the mortgage only if the subject property is located in a state whose state statutes provide for such a super lien.
<ul style="list-style-type: none"> Include the following if the loan is an ARM: The law of the state in which the property securing the mortgage is located provides that (i) the lien of the mortgage will not become invalid or unenforceable resulting from provisions in the mortgage that provide for changes in the interest rate calculated pursuant to the formula provided in the mortgage, and (ii) priority of the lien of the mortgage for the UPB of the loan, together with interest as changed and other sums advanced by the noteholder in accordance with the provisions of the mortgage, will not be lost as

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a result of changes in the rate of interest calculated pursuant to the formula provided in the mortgage.
<ul style="list-style-type: none"> • Include the following if the loan is secured by a unit in a PUD: <ul style="list-style-type: none"> ○ There is no present violation of any restrictive covenants that are in the PUD constituent documents and restrict the use of the land or the forfeiture or reversion of title, ○ All dues applicable to the subject property are current and not delinquent, and ○ No recorded right of first refusal to purchase the land was exercised or could have been exercised on or before the closing date of the loan and the undersigned is unaware of the existence or the exercise of any right of first refusal on or before the closing date of the loan.
<ul style="list-style-type: none"> • Not take exception to survey matters. In addition, the opinion must not be subject to any title exceptions other than those set forth in B7-2-05, Title Exceptions and Impediments

9.1.9.1. Ineligible Transactions

The following transactions are ineligible for an attorney title opinion letter:

- Loans secured by a unit in a condo project; co-op share loans.
- Loans secured by a dwelling on a leasehold estate, including leasehold estates on property owned by a community land trust.
- Loans secured by a manufactured home; HomeStyle Energy and HomeStyle Renovation loans.
- Texas Section 50(a)(6) loans; loans secured by property subject to restrictive agreements or restrictive covenants.
- And loans executed using a power of attorney.

9.1.9.2. Special Feature Code

The lender must report Special Feature Code 155 when delivering a loan that uses an attorney title opinion letter in lieu of a title insurance policy. This code is in addition to any other SFCs that may apply (see Special Feature Codes for additional information).

9.1.10. Loan File Requirements

Prior to docs, the loan file must contain all of the following:

- A completed Mountain West Financial Underwriting Trust Lending Checklist.
- A completed Mountain West Financial Doc Tech and Funder Lending Trust Checklist.
- A complete copy of the Trust instrument.
- A complete copy of the Title Company Trust Certification executed and notarized, and



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- The MWF California Certification of Trust notarized and signed by all Trustees or acceptable attorney's opinion letter addressed to MWF.