Product Guideline Summary

Fannie Mae - Conventional Standard Purchase, Rate and Term Refinance and Cash-Out Refinance

Revised: December 12, 2016

<table>
<tr><th colspan="2">Fannie Mae – Conventional Standard Purchase, Rate and Term Refinance and Cash-Out Refinance</th></tr>
<tr><th>Topic</th><th>Expanded Guideline</th></tr>
<tr><td>Appraisals</td><td>

Appraisals must meet Fannie Mae Requirements.
All appraisals must be uploaded to Uniform Collateral Data Portal (UCDP) and receive a “successful” Submission Summary Report (SSR).
Properties must be appraised within the 12 months that precede the date of the note and mortgage.
When an appraisal report will be more than four months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D).

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<tr><td>Assets – Interested Party Contributions (IPCs)</td><td>
Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. Fannie Mae does not permit IPCs to be used to make the borrower’s down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.
Interested parties to a transaction include but are not limited to:

the property seller
the builder/developer
the real estate agent or broker
A lender or employer is NOT considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction.

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

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

Types of Interested Party Contributions (IPCs) include but are not limited to:
Down Payment Assistance (DPA) Programs: Funds that are donated to third parties which are then applied toward some or all of the borrower’s closing costs for a specific transaction. IPC funds that flow through a DPA may be used for allowable closing costs, prepaids, and energy-related expenses in compliance with Fannie Mae’s IPC limits.
Financing concessions are:

financial contributions from interested parties that provide a benefit to the borrower in the financing transaction;
payments or credits related to acquiring the property; and
payments or credits for financing terms, including prepaids.
Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are NOT subject to Fannie Mae IPC limits. Fees typically defined as financing concessions:

origination fees
discount points
appraisal costs
transfer taxes

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Assets – Interested Party Contributions (IPCs)

  - survey charges
  - title insurance premiums or charges
  - real estate tax service fees
  - funds to subsidize a temporary or permanent interest rate buydown.
- Financing concessions can also include prepaid items, such as:
  - interest charges (limited to no more than 30 days of interest);
  - real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment);
  - property insurance premiums (limited to no more than 14 months);
  - homeowners' association (HOA) assessments covering any period after the settlement date (limited to no more than 12 months);
  - initial and/or renewal mortgage insurance premiums; and
  - escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.
- Payoff of a PACE loan by a seller is NOT subject to Fannie Mae IPC limits because it is not a financing concession.

Sales concessions: IPCs that take the form of non-realty items. The value of sales concessions must be deducted from the sales price when calculating LTV and combined LTV ratios for underwriting and eligibility purposes.

- Types of sales concessions:
  - Cash
  - Furniture
  - Automobiles
  - decorator allowances
  - moving costs
  - other giveaways

Interested Party Contributions (IPCs) Limits

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Principal residence or second home	Greater than 90%	3% (Maximum IPC for HomePath Properties is 6%)
	75.01% – 90%	6%
	75% or less	9%
Investment property	All CLTV ratios	2%

Assets – Large Deposits

Evaluating Large Deposits

Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.

Transaction Type	Evaluation Requirements
Refinance transactions	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 transactions	• If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the lender must document that those funds are from an acceptable source. Examples of acceptable documentation include: o the borrower's written explanation o proof of ownership of an asset that was sold o a copy of a wedding invitation to support receipt of gift funds. • Verified funds must be reduced by the amount (or portion) of the undocumented large deposit. When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit.

Assets – Large Deposits

Note: If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain additional documentation.

Assets – Minimum Borrower Investment and Gifts

Minimum Borrower Contribution for Transactions that DO NOT Contain Gifts

	Primary Residence		**Second Home**		**Investment Properties**	
	<=80% LTV/CLTV	**>80% LTV/CLTV**	**<=80% LTV/CLTV**	**>80% LTV/CLTV**	**<=80% LTV/CLTV**	**>80% LTV/CLTV**
Minimum Investment from Borrower's Own Funds	None	1 unit - None 2-4 unit- 5%	None	5%	Entire down payment	

Minimum Borrower Contribution for Transactions that Contain Gifts

LTV, CLTV, or HCLTV Ratio	**Property Type**	**Purpose**	**Requirements**
80% or less	1-4 Unit	Primary, Second Home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
Greater than 80%	1 Unit	Primary	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	2-4 Unit	Primary, Second Home	The borrower must make a 5% minimum borrower contribution from his or her own funds. *After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.

Down payment assistance in the form of a gift or grant is permitted.
LTV = Loan to Value
CLTV = Combined Loan to Value

*If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.

Gift Funds

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. Gifts are not allowed on an investment property.

- Acceptable Donors
  - Acceptable donors may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction. A gift can be provided by:
    - a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
    - a fiancé, fiancée, or domestic partner.
- Documentation Requirements
  - Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:
    - specify the dollar amount of the gift;
    - 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.
  - When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

Assets – Minimum Borrower Investment and Gifts	▪ A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence. ▪ Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement. ▪ Verifying Donor Availability of Funds and Transfer of Gift Funds o The lender must verify 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. o When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.
Assumptions	• Not permitted
Borrower Eligibility	• U.S. Citizen • Permanent Resident o A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card. Document legal residency with one of the following: ▪ A copy of a valid and current Permanent Resident card (Green Card - Form I-551) front and back. ▪ A passport stamped "processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until_______. Employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident card. • Non-Permanent Resident o A non-permanent resident is a non-U.S. citizen who lawfully enters the United States for specific time-periods under the terms of a Visa. A non-permanent resident status may or may not permit employment. Asylees and refugees may also be eligible under this classification. Verification of one of the following is required: ▪ Unexpired Employment Authorization Document (EAD) issued by the United States Citizenship and Immigration Services (USCIS). ▪ A valid passport, letter from employer/sponsor and an I-94 proving work authorization. ▪ One of the following Visas: E-1, E-2, E-3, G-1, G-2, G-3, G-4, G-5, H-1, H-1B, H-2A, H-2B, H-3, L1, TC, TN-1, required. For further information, see USCIS. ▪ Expiring Visas: If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from USCIS. • Foreign Nationals o Not permitted • Eligible Trusts: o Inter Vivos Revocable Trust • Ineligible Trusts: o Land trusts o Community land trusts o Blind trusts Additional Notes: • Non-occupying co-borrowers are allowed. • All borrowers signing the Note must have a valid social security number. • Form I-797C, Notice of Action, issued by the United States Citizenship and Immigration Services (USCIS) itself is not. • sufficient to document that a non-U.S. Citizen is legally present in the United States. • Individuals classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure or Humanitarian Parole are not eligible. • Borrower(s) must meet all other program requirements.

Credit

Credit Score Requirements

- Desktop Underwriter (DU) Approve/Eligible – See the LTV/CLTV Limitations section for minimum credit score requirements.
- For borrowers with 7-10 financed properties a minimum credit score of 720 is required with AUS approval.

Housing (Mortgage/Rental) Payment History

- Inclusive of all liens regardless of position
- Applies to all mortgages on all financed properties
- Evaluated by DU

Student Loans

For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the lender must include a monthly payment in the borrower's recurring monthly debt obligation when qualifying the borrower. The lender must use one of the options below to determine the repayment amount:

- 1% of the outstanding balance;
- the actual payment that will fully amortize the loan(s) as documented in the credit report, by the student loan lender, or in documentation supplied by the borrower;
- a calculated payment that will fully amortize the loan(s) based on the documented loan repayment terms; or
- if the repayment terms are unknown, a calculated payment that will fully amortize the loan(s) based on the current prevailing student loan interest rate and the allowable repayment period shown in the table below.

Calculating a Student Loan Repayment	
Total outstanding balance of all student loans	**Repayment Period**
$1 — $7,499	10 years
$7,500 — $9,999	12 years
$10,000 — $19,999	15 years
$20,000 — $39,999	20 years
$40,000 — $59,999	25 years
$60,000 +	30 years

Re-established Credit

- After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, short sale, charge-off of a mortgage, or other significant derogatory credit, the borrower's credit will be considered re-established if:
  - The waiting period and related additional requirements are met.
  - The loan receives a Desktop Underwriter Approve.
  - The borrower has traditional credit.

Consumer Credit Counseling

- When reviewing the credit history of a borrower who is either participating in or has completed Consumer Credit Counseling the primary objective is to evaluate the borrower's credit history. Follow Automated Underwriting System (AUS) recommendation.

Significant Derogatory Credit Waiting Period Requirements

- Waiting period begins on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the credit report date for DU (however the note date may be used).

Credit

DU cannot read extenuating circumstances and therefore the Waiting Period and LTV/CLTV/HCLTV must be manually applied.

Derogatory Event	Financial Mismanagement	Extenuating Circumstances
Foreclosure	>=7 years from completion	>=3 years and <=7 years from completion Purchase Primary: 90% LTV/CLTV/HCLTV Rate & Term Refinance • LTV/CLTV/HCLTV per product matrices • All occupancy types Ineligible • Cash Out: All occupancy types • Purchase second home and investment property
Pre-foreclosure/ Short Sale/Deed in Lieu (DIL)	>=4 years from completion	>= 2 years from completion
Mortgage Charge Off	>=4 years from charge off	>=2 years from completion See below
Bankruptcy – Excluding Chapter 13	>=4 years discharged/dismissed	>=2 years discharged/dismissed
Bankruptcy – Chapter 13	>=2 years discharged >=4 years dismissed or filed but not discharged or dismissed	>=2 years discharged/dismissed
Multiple Bankruptcy Filings	>=5 years if more than one filing discharged /dismissed within the past 7 years	>=3 years from the most recent discharge/dismissal
Other Significant Adverse Credit	Follow DU	Follow DU

If a mortgage debt was discharged through bankruptcy, even if the debt is subsequently satisfied through a foreclosure action, the bankruptcy waiting periods may be applied if appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied. When foreclosure proceedings were initiated by the lender but not completed (borrower brought the mortgage current), the foreclosure wait time restrictions do not apply.

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<tr><td>Credit</td><td>Major Adverse Credit

Judgments, garnishments and liens must be paid off at or prior to closing. Documentation of the satisfaction must be provided. Accounts that are past due (and not yet reported as a collection account) must be brought current. Satisfaction of tax liens may be a condition of loan approval. When the credit report or title report show federal, state or local tax liens, a letter of explanation and proof that the lien is paid are required. No payment plans or subordination is allowed. Verification of sufficient funds to satisfy these obligations must be documented:

Collection or non-mortgage charged-off accounts and repossessions may not have to be paid off at or prior to closing.
Follow AUS recommendation
Disputed Trade Lines

Follow the Desktop Underwriter findings. Confirm the accuracy of disputed trade lines reported on the borrower's credit report. If it is determined that the disputed trade line information is accurate and complete ensure the disputed trade lines are considered in the credit risk assessment by either obtaining a new credit report with the trade line no longer reported as disputed and resubmit the loan to DU.
The following is not required if DU does not issue the disputed trade line message:

Further investigation of the disputed trade line on the credit report.
Obtain an updated credit report (with the undisputed trade line).

The payment for the trade line, if any, must be included in the total debt-to-income ratio if the account does belong to the borrower.
Note: Trade lines reported as medical debt (Account Type Code of MD or Remarks Code of E0166) are not shown in the disputed trade line message if also reported as disputed, and an investigation of the disputed medical trade line is not required.

Credit Refresh
If any new derogatory is credit discovered after retrieving a refreshed credit report prior to closing, a new credit report must be obtained and the loan resubmitted to Desktop Underwriter for approval.

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<tr><td>Documentation Type</td><td>Standard</td></tr>
<tr><td>Escrow/Impound Waivers</td><td>
Fannie Mae advocates the establishment of an escrow account for the payment of taxes and insurance, particularly for borrowers with blemished credit histories or first-time homeowners.
Unless required by law, lenders may waive escrow account requirements for an individual first mortgage, provided the standard escrow provision remains in the mortgage loan legal documents. Lenders cannot waive an escrow account for certain refinance transactions or for the payment of premiums for borrower-purchased mortgage insurance (if applicable). When the requirement for an escrow account is waived, the lender must retain Fannie Mae’s right to enforce the requirement in appropriate circumstances.
Higher Priced Mortgage Loans (HPML) primary residence loans must maintain an escrow account for a minimum of 5 years.
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<tr><td>Fannie Mae Real Estate Owned (REO)</td><td>
Primary residence Loan to Value or Combined Loan to Value (LTV/CLTV) >90% may have Seller Contributions up to 6% (rather than the 3%), and
Resale Restrictions: Fannie Mae REO resale restriction (property resold within 3 months of purchase) is eligible.
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<tr><td>High-Balance Loans</td><td><u>Loan Limits</u>
The high-balance loan requirements apply to mortgage loans with original loan amounts meeting the high-cost area loan limits. Fannie Mae publishes on its website the <u>maximum high-cost area loan limits</u> that may apply by state (or territory); however, specific loan limits are established for each county (or equivalent) and may be lower for each specific high-cost area.
<u>Loan Eligibility and Underwriting Requirements</u>
High-balance mortgage loans must meet all standard Fannie Mae eligibility and underwriting requirements, as outlined in this guide, except as noted in this section. The following guidelines apply to all high-balance mortgage loans:

Loans must be conventional first-lien mortgages only.
Loans must meet the LTV, CLTV, and HCLTV ratios as outlined in the <u>Fannie Mae Eligibility Matrix</u> .
All borrowers must have a credit score.
All loans must be underwritten through Desktop Underwriter (DU).

For additional eligibility information, see the Fannie Mae Eligibility Matrix.</td></tr>
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High-Balance Loans	<u>Appraisal Requirements</u> • In addition to the standard Selling Guide or DU fieldwork requirements, a One-Unit Residential Appraisal Field Review Report (Form 2000) or a Two- to Four-Unit Residential Appraisal Field Review Report (Form 2000A), is required if the property is valued at $1,000,000 or more and the LTV, CLTV, or HCLTV ratio is greater than 75%. A Field Review is required to ensure that the appraisal is an accurate representation of value. If the Field Review results in a different opinion of value than the appraisal, the lowest of the original appraised value, the Field Review value, or the sales price (for purchases) should be used to calculate the LTV ratios. <u>Mortgage Insurance Requirements</u> • Mortgage insurance coverage is required for high-balance mortgage loans with LTV ratios greater than 80%. Financed borrower-purchased mortgage insurance is permitted; however, the maximum gross LTV (after the inclusion of the financed premium) cannot exceed 95%.

Income/Employment	Follow DU for income documentation
	
	Prior to Funding the 4506-T must be processed for each borrower. Obtain as appropriate:
	• Tax return transcript (s) when the personal income tax return(s) are used for qualification (self-employment, rental income, >= 25% income earned from commission, *etc.*); or
	
	Personal Tax Returns
	• Borrower's personal income tax returns for the last two years, filed with the IRS are require.
	
	<u>Stable Monthly Income</u>
	• The continuity of stable and predictable income must be demonstrated.
	• Consider the length of the borrower's employment with any one employer. Borrowers with frequent job changes who earn a consistent and predictable income and are able to pay debt obligations are considered to have a reliable flow of income for loan qualification.
	
	<u>Variable Income</u>
	• All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received.
	• Two or more years of receipt of variable income is recommended, however variable income that has been received for 12 to 24 months may be consider acceptable income, as long as there are demonstrated positive factors that reasonably justify the use of the shorter income history.
	• The monthly year-to-date income calculation must be compared to the prior year's earnings using the borrower's W-2s or signed personal income tax returns to determine if the income trend is stable, increasing, declining but stabilized or declining. A level, upward or previously declining but stabilized trend in earnings must be established.
	• If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but it may not be averaged over the period when declination occurred.
	
	<u>Employment Gaps</u>
	• Borrowers re-entering the workforce with less than 6 months of employment should be carefully reviewed to ensure a two-year work history prior to the absence from the workforce, is established. Additional documentation may be required (documentation supporting job loss, prior employment in same or related field, education or training supporting new job, *etc.*).
	
	<u>Base Pay (Salary or Hourly), Bonus and Overtime Income</u>
	A minimum history of two years of employment income is recommended. However, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history.
	• Borrowers relying on overtime or bonus income for qualifying purposes must have a history of no less than 12 months to be considered stable.
	• For base, bonus and overtime income, obtain the following documents:
	    o A completed Request for Verification of Employment (Form 1005 or Form 1005(S)), or
	    o The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
	• If the borrower has recently changed positions with his or her employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the future.
	• All calculations must be compared with the documented year-to-date base earnings (and past year earnings, if applicable) to determine if the income amount appears to be consistent.

Income/Employment	Commission Income
	A minimum history of 2 years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
	• If the commission income represents less than 25% of the borrower's total annual employment income, obtain the following documents:
	  o A completed Request for Verification of Employment, or
	  o The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
	• If commission income represents 25% or more of the borrower's total annual employment income, obtain the following documents:
	  o Copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two years; and either
	  o A completed Verification of Employment), or
	  o The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
	• For borrowers with commission income representing 25% or more of their total annual employment income, any unreimbursed business expenses must be subtracted from the gross commission income.
	
	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.
	
	Seasonal Income
	Verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two years. 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.
	
	Self-Employed Borrower
	Factors to Consider for a Self-Employed Borrower
	• Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed.
	• The following factors must be analyzed before approving a mortgage for a self-employed borrower:
	  o the stability of the borrower's income,
	  o the location and nature of the borrower's business,
	  o the demand for the product or service offered by the business,
	  o the financial strength of the business, and
	  o the ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage.
	• Length of Self-Employment
	  o Fannie Mae generally requires lenders to obtain a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received.
	  o However, a person who has a shorter history of self-employment — 12 to 24 months — may be considered, as long as the borrower's most recent signed federal income tax returns reflect the receipt of such income as the same (or greater) level in a field that provides the same products or services as the current business or in an occupation in which he or she had similar responsibilities to those undertaken in connection with the current business. In such cases, you must give careful consideration to the nature of the borrower's level of experience, and the amount of debt the business has acquired.
	• Verification of Income
	  o The lender may verify a self-employed borrower's employment and income by obtaining from the borrower copies of his or her 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).
	  o For certain loan casefiles DU will issue a message permitting only one year of personal and business tax returns, provided income is documented by:
	    ▪ obtaining signed individual and business federal income tax returns for the most recent year,
	    ▪ confirming the tax returns reflect at least 12 months of self-employment income, and
	    ▪ completing Fannie Mae's Cash Flow Analysis (Form 1084) or any other type of cash flow analysis form that applies the same principles.

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<td>Income/Employment</td>
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Purpose of the Analysis of Borrower's Business Income

Consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation;
Measure year-to-year trends for gross income, expenses, and taxable income for the business;
Determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and
Determine a trend for the business based on the change in these percentages over time.

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<td>Income - Other Sources of Income</td>
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<u>Alimony or Child Support</u>

Document that alimony or child support will continue to be paid for at least three years after the date of the mortgage application, as verified by one of the following:

A copy of a divorce decree or separation agreement that indicates payment of alimony or child support and states the amount of the award and the period of time over which it will be received.
Any other type of written legal agreement or court decree describing the payment terms for the alimony or child support.

Review the payment history to determine its suitability as stable qualifying income. To be considered stable income, full, regular, and timely payments must have been received for six months or longer.

<u>Automobile Allowance</u>
The borrower must have received payments for at least two years. All associated business expenditures must be included the calculation of the borrower's total Debt to Income (DTI) ratio.

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

<u>Boarder Income</u>

Income from boarders in the borrower's principal residence or second home is not considered acceptable stable income with the exception of the following:

When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage loan. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.

Verification requirements for income from boarders:

Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address.
Obtain documentation of the boarder's rental payments for the most recent 12 months.

<u>Capital Gains Income</u>

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

Document a two-year history of capital gains income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.
Develop an average income from the last two years, and use the averaged amount as part of the borrower's qualifying income as long as the borrower provides current evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage loan payments.

<u>Disability Income — Long-Term</u>

This section does not apply to disability income that is received from the Social Security Administration.

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</table>

Income - Other Sources of Income	• Verification Requirements:
	  o Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer to determine
	    ▪ The borrower's current eligibility for the disability benefits,
	    ▪ The amount and frequency of the disability payments, and
	    ▪ If there is a contractually established termination or modification date.
	  o Generally, long-term disability will not have a defined expiration date and must be expected to continue.
	
	<u>Employment Offers/Employment Contracts/Projected Income</u>
	• If the borrower is scheduled to begin employment after the loan closes, you may use the borrower's offer or contract for future employment and income to underwrite and close the loan.
	• Verification Requirements:
	  o The lender must document the borrower's income and employment history per B3-3.1-01, General Income Information (06/30/2015).
	  o The lender must obtain the borrower's offer or contract for future employment and anticipated income. The lender must determine whether to close the mortgage loan prior to the borrower beginning the new employment.
	  o The borrower must begin employment before the lender delivers the loan to Fannie Mae. The lender must obtain a paystub from the borrower that includes sufficient information to support the income used to qualify the borrower prior to delivering the loan. The paystub must be retained in the mortgage loan file.
	
	<u>Employment-Related Assets as Qualifying Income</u>
	• Assets used for the calculation of the monthly income stream 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 and must be sourced as one of the following:
	  o A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) — these funds must be documented with a distribution letter from the employer (Form 1099–R) and deposited to a verified asset account.
	  o For 401(k) or IRA, SEP, Keogh retirement accounts – the borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.
	• If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.
	• 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 and consideration of any penalty) must be used to determine the income stream to account for the volatile nature of these assets.
	• Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future income.
	• Ineligible assets are non-employment-related assets:
	  o Stock options
	  o Non-vested restricted stock
	  o Lawsuits
	  o Lottery winning
	  o Sale of real estate
	  o Inheritance
	  o Divorce proceeds

Income - Other Sources of Income

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

Parameter	Fannie Mae Requirement
Maximum LTV/CLTV/HCLTV	70%
Minimum Credit Score	DU: 620
Loan Purpose	Purchase and limited cash-out refinance only
Occupancy	Principal residence and second home only
Number of units	One- to four-unit properties
Income Calculation/Payout Stream	Divide "Net Documented Assets" by the amortization term of the mortgage loan (in months).

Interest and Dividends Income

- Verification Requirements:
  - Verify the borrower's ownership of the assets on which the interest or dividend income was earned.
  - Document a two-year history of the income, as verified by
    - copies of the borrower's signed federal income tax returns, or
    - copies of account statements.
  - Develop an average of the income received for the most recent two years.
  - Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

Non-taxable

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

- The income must be verified as nontaxable. Acceptable documentation includes:
  - Award letters
  - Policy agreements
  - Account statements
  - Any other documents that address the nontaxable status of the income
- Types of Non-taxable Income include but not limited to:
  - Child support payments
  - Social Security benefits
  - Workers' compensation benefits
  - Certain types of public assistance payments
  - Food stamps

Retirement, Government Annuity, and Pension Income

- Verification Requirements:
  - 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. In addition
    - 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.

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. However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the lender obtains documentation that confirms the remaining term is at least three years from the date of the mortgage application.
- Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.

Income – Other Sources of Income

Type of Social Security Benefit	Borrower is drawing Social Security benefits from own account/work record[1]	Borrower is drawing Social Security benefits from another person's account/work record1, [2]
Retirement	• Social Security Administrator's (SSA) Award letter, or • Proof of current receipt	• SSA Award letter, • Proof of current receipt, AND • Three-year continuance (*e.g.*, verification of beneficiary's age)
Disability		
Survivor Benefits	N/A	
Supplement Security Income (SSI)	• SSA Award letter, and • Proof of current receipt	N/A

[1] An SSA Award letter may be used to document the income if the borrower is receiving Social Security payments or if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter.

[2] Examples of how a borrower might draw Social Security benefits from another person's account/work record and use the income for qualifying:

- A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.); or

A borrower may use Social Security income received by a dependent (a minor or disabled dependent).

<u>Temporary Leave Income</u>

- Temporary leave from work 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.
- If a lender is made aware that a borrower will be on temporary leave at the time of closing of the mortgage loan and that borrower's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below.
    - The borrower must provide written confirmation of his or her intent to return to work.
    - The lender must document the borrower's agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.
    - You must obtain
        - the amount and duration of the borrower's "temporary leave income," which may require multiple documents or sources depending on the type and duration of the leave period; and
        - the amount of the "regular employment income" the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes.
- Requirements for Calculating Income Used for Qualifying
    - If the borrower will return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying.
    - If the borrower will not return to work as of the first mortgage payment date, the lender must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves.
        - 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
            - The total qualifying income that results may not exceed the borrower's regular employment income.

Income – Other Sources of Income

Tip Income

- Obtain the following documents:
  - A completed Request for Verification of Employment (Form 1005 or Form 1005(S)), or
  - The borrower's recent paystub, and
  - IRS W-2 forms covering the most recent two-year period or the most recent two years' tax returns with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to verify tips not reported by the employer.
- Tip income may be used to qualify the borrower if you can verify that the borrower has received it for the last two years.

Unemployment Benefits Income

- Verification requirements:
  - Copies of signed federal income tax returns to evidence the borrower has received the payments consistently for at least two years.
  - 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. Verify that the seasonal income is likely to continue.

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.).

Income – Rental Income

Eligible Properties

- Subject Property:
  - 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.
- Not the Subject Property:
  - No restrictions on the property type.

Ineligible Properties

- 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).
- Rental income from a second home
- Fannie Mae does allow certain exceptions to this policy for boarder income (See the Boarder Income guideline for complete requirements).

Documenting Rental Income from Subject Property

- 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 Rent Schedule (Form 1007), or
  - For two- to four-unit properties: Small Residential Income Property Appraisal Report (Form 1025).
- Additional documentation requirements are below:

Does the Borrower Have a History of Receiving Rental Income from the Subject Property?	Transaction Type	Documentation Requirements (in addition to the above requirement)
Yes	Refinance	• The borrower's most recent year of signed federal income tax returns, including Schedule E, or • Copies of the current lease agreement(s) if the borrower can document a qualifying exception.
No	Purchase	• 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. • If the property is not currently rented, lease agreements are not required. Lenders may use market rent supported by Form 1007 or Form 1025, as applicable.
No	Refinance	• Copies of the current lease agreement(s).

Income – Rental Income

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No	Refinance	• Copies of the current lease agreement(s).

Documenting Rental Income from Property Other Than the Subject Property

- When the borrower owns property – other than the subject property – that is rented, the lender must document the monthly gross (and net) rental income with the borrower's most recent signed federal income tax return that includes Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception.

Partial or No Rental History on Tax Returns

- The lender must determine whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, the lender's analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties.
- 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, the lender may determine qualifying rental income 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.

Income – Rental Income

If…	Then…
the property was acquired during or subsequent to the most recent tax filing year,	the lender must confirm the purchase date using the settlement statement or other documentation. • 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,	• Schedule E will reflect the costs for renovation or rehabilitation as repair 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. • 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.
the lender determines that some other situation warrants an exception to use a lease agreement,	• The lender must provide an explanation and justification in the loan file.

Calculating Monthly Qualifying Rental Income (or Loss)

- 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.
- If using a Lease Agreement
  - When current lease agreements are used, the lender must calculate the rental income by multiplying the gross rent(s) by 75%.

Loan Amount

Minimum: $50,000

Maximum Loan Amount		
Units	**Continental U.S.**	**Alaska & Hawaii**
1	$417,000 (Year 2017: $424,100)	$625,500 (Year 2017: $636,150)
2	$533,850 (Year 2017: $543,000)	$800,775 (Year 2017: $814,500)
3	$645,300 (Year 2017: $656,350)	$967,950 (Year 2017: $984,525)
4	$801,950 (Year 2017: $815,650)	$1,202,925 (Year 2017: $1,223,475)

Loan to Value (LTV), Combined Loan to Value (CLTV) and High Combined Loan to Value (HCLTV) Limitations for Automated Underwriting

DU Approve/Eligible		
Units	LTV/CLTV/HCLTV	Credit Score
PRIMARY RESIDENCE		
Purchase and Rate & Term Refinance		
1	95.01-97%***	620
1	95%	620
2	85%	620
3-4	75%	620
Cash-Out Refinance		
1	80%	620
2-4	75%	620

Loan to Value (LTV), Combined Loan to Value (CLTV) and High Combined Loan to Value (HCLTV) Limitations for Automated Underwriting

SECOND HOMES		
Purchase and Rate & Term Refinances		
1	90%	620
Cash-Out Refinance		
1	75%	620
INVESTMENT PROPERTIES		
Purchase		
1	85%	620
2-4	75%	620
Rate and Term Refinance		
1-4	75%	620
Cash-Out Refinance		
1	75%	620
2-4	70%	620

***See details below:

- LTV/CLTV/HCLTV > 95%
  - Purchase- At least one borrower must be a first-time home buyer (must not have owned any residential property in the past three years).
  - Rate & Term Refinance – Existing loan being refinanced must be owned by Fannie Mae. Documentation may come from one of the following and must be retained in the loan file:
    - Fannie Mae's Loan Lookup tool
    - Servicing System
    - The current servicer (if Alterra is not the servicer)
- Maximum 105% CLTV with Community Second
  - See the Fannie Mae Selling Guide for parents who want to provide housing for their physically handicapped or developmentally disabled adult child or children who want to provide housing for parents who are unable to work or do not have sufficient income to qualify.
  - See MI company eligibility guideline requirements for LTV >80%.

Loan to Value (LTV), Combined Loan to Value (CLTV) and High Combined Loan to Value (HCLTV) Limitations for Manufactured Housing

MANUFACTURED HOMES		
DU Approve/Eligible		
Units	LTV/CLTV/HCLTV	Credit Score
PRIMARY RESIDENCE		
Purchase and Rate & Term Refinance		
1	95%	620
Cash-Out Refinance*		
1	65%	620
SECOND HOMES		
Purchase and Rate & Term Refinance		
1	90%	920

- *Term <= 20 years for cash-out refinance
- See MI company eligibility guideline requirements for LTV >80%

Mortgage Insurance

Mortgage insurance is required for all loans over 80% Loan to Value (LTV)

- Refer to the MI company requirements for additional eligibility guidelines.
- Eligible MI companies must be acceptable to Fannie Mae.
- Discounted coverage requiring additional premium per Automated Underwriting System (AUS) findings is not eligible.
- Financed MI is permitted for 1-unit primary residence and second home purchase and rate & term refinance transactions.
  - The mortgage amount and LTV including the financed premium may not exceed the limitation set forth in the program guidelines.
  - Mortgage insurance coverage is based on LTV excluding the financed premium. Rate lock pricing is based on mortgage amount including financed premium.

Mortgage Insurance

- NY State –Use the appraised value to determine if mortgage insurance is required. If Mortgage Insurance is required, use the lesser of the sales price or appraised value to determine the appropriate coverage.

Mortgage Insurance Options	
Borrower Paid Mortgage Insurance (BPMI)	**Lender Paid Single Premium**
• Financed MI - see above details • Monthly and Zero Monthly • Level Annual • Standard Annual • Split Premium (with or without options) • Single Premium	• Paid to MI company

	Loan to Value (LTV)	Coverage	
		< 20 Years	**> 20 years**
Fixed Rate	80.01% - 85%	6%	12%
	85.01% - 90%	12%	25%
	90.01% - 95%	25%	30%
	95.01% -97%	35%	35%
Manufactured Homes	80.01% - 85%	12%	
	85.01% - 90%	25%	
	90.01% - 95%	30%	

Non-Occupying Co-Borrower, Guarantors and Co-Signers

AUS will analyze the risk factors based on income, assets, liabilities and credit of the file.

Non-occupant borrowers

Non-occupant borrowers are credit applicants on a principal residence transaction who

- do not occupy the subject property;
- may or may not have an ownership interest in the subject property as indicated on the title;
- sign the mortgage or deed of trust note;
- have joint liability for the note with the borrower(s); and
- do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

Non-Occupant Borrower Income
DU will consider a non-occupant borrower's income as qualifying income for a principal residence with certain LTV ratio limitations.

- Maximum Loan-to-Value (LTV): 95%
- Maximum Debt-to-Income (DTI): 45%

Guarantors and co-signers

Guarantors and co-signers are credit applicants who

- do not have ownership interest in the subject property as indicated on the title;
- sign the mortgage or deed of trust note;
- have joint liability for the note with the borrower; and
- do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

Occupancy

- Primary Residence
- Second Homes
- Investment Properties

Prepayment Penalty

- Not permitted

Property Types

Eligible Property Types

- 1-4 units
- Condo
  - o See the Fannie Mae Planned Unit Development (PUD) Matrices for:
    - Appraisal and warranty requirements
    - Loan to Value, Combined Loan to Value and High Combined Loan to Value (LTV/CLTV/HCLTV) for Fannie Mae Desktop Underwriter (DU) Limited Review established attached condos.
  - o Condo warranty valid for 180 days prior to the note date.
- Leasehold Estates
- Manufactured Homes
  - o Max 95% Loan to Value, Combined Loan to Value and High Combined Loan to Value (LTV/CLTV/HCLTV).
  - o Primary residence and second homes
  - o Properties on a leasehold are not eligible
  - o Multi-wide manufactured homes may be located in a condo or Planned Unit Development (PUD) project, subdivision or on an individual lot.
    - Manufactured homes condo units must be in a Fannie Mae PERS approved condo project.
  - o Single-wide manufactured homes must be in a Fannie Mae Project Eligibility Review Service (PERS) approved condo project or Fannie Mae PERS approved PUD project.
  - o The borrower must have owned both the manufactured home and land for at least 12 months preceding the date of the loan application for cash-out refinance transactions.
  - o The manufactured home must be classified and titled as real property.
  - o American Land Title Association (ALTA) 7 or state specific equivalent Title Endorsement is required.
  - o Properties permanently installed on a site for less than 12 months are eligible only if borrower is the second purchaser of the property and the seller is not the builder-contractor or manufactured housing dealer who installed manufactured housing unit on site.
  - o See the Fannie Mae Selling Guide for complete manufactured housing requirements.
- Off-frame Modular Housing
- Precut, Panelized Housing
- Planned Unit Development (PUD)
- New Jersey 2-4 Units
  - o Approval on exception basis only
  - o Loan must be manually priced

Ineligible Property Types

- 2-4 unit Planned Unit Development (PUD)
- Condo Hotel
- On-frame Modular Housing
- Cooperative (Co-op)

Qualified Mortgage (QM) Rebuttable Presumption

- A transaction is classified as Qualified Mortgage (QM) Rebuttable Presumption when the Annual Percentage Rate (APR) is greater than Average Prime Offer Rate (APOR) + 1.5%, which can be categorized as Higher Priced Covered Transaction (HPCT).
- See the Escrow/Impound Waiver section for Escrow Waiver Restrictions.
- Residual income and corresponding reserve requirement must be documented based on the table below.

Residual Income	
Residual income is the qualified gross monthly income less the gross monthly debt. The debt and income used to calculate the Debt to Income (DTI) ratio should be used for the residual income evaluation per the base product guidelines.	
Primary Residence	
If monthly residual income is:	Then, the minimum reserves required are:
$2500 or greater	No minimum reserves, comply with minimum reserves requirement for the base loan program.
>= $800 < $2500	The greater of: • Three months' liquid reserves OR • Minimum reserve for base loan program
<$800	Not eligible
Second Home and Investment Property	
$2500 or greater	No minimum reserves, comply with minimum reserves requirement for the base loan program.
< $2500	Not eligible

<table>
<tr><td>Qualifying Rate and Ratios</td><td>Qualifying Rate
• Qualify using the note rate
Ratios
• Desktop Underwriter (DU) Approve/Eligible – Follow DU</td></tr>
<tr><td>Reserve Requirements</td><td>Subject Property Reserves
• For a Primary Residence, Second Home or Investment Property, follow Desktop Underwriter (DU).
• For Cash-Out Refinances, the cash-out may not be used to meet the reserve requirements.

Subject Property PLUS Multiple Financed Properties Reserves
• If the subject property is a second home or investment property and the borrower owns other financed properties, additional reserves must be calculated and documented plus those required for the subject property. The required reserves for a financed property are based on the qualifying payment amount of each individual financed property.
• If using DU Version 9.3 to calculate reserves, for Second Homes or Investment Properties, follow Desktop Underwriter (DU) plus:
o 2-4 additional financed properties: 2 months PITIA for each second home or investment property PLUS.
o 5-10 additional financed properties: 6 months PITIA for each second home or investment property.
• The below requirements must be manually applied for DU until implementation of DU Version 10.0, September 24, 2016 if not using DU 9.3 to calculate reserves. (Note: UPB = Unpaid Principal Balance).
o Maximum 10 financed properties, including the subject property and primary residence.
o Second Home or Investment Property
▪ Subject Property Reserve requirements PLUS
▪ 2% of the aggregate UPB if borrower has 1-4 financed properties
▪ 4% of the aggregate UPB if the borrower has 5-6 financed properties
▪ 6% of the aggregate UPB if borrower has 7-10 financed properties
➢ DU Approve/Eligible only
➢ Minimum credit sore of 720
▪ The aggregate of the UPB does not include the mortgages and Home Equity Lines of Credit (HELOCs) that are on:
➢ The subject property
➢ Primary residence
➢ Properties that are sold or pending sale
➢ Accounts that will be paid by closing</td></tr>
<tr><td>Secondary Financing</td><td>• See LTV/CLTV Limitations section
• The terms of any subordinate financing must be fully disclosed, documented and comply with the following:
o The maturity date or amortization of the junior lien must not be less than five years after the note date of the new first mortgage.
▪ May be acceptable when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile.
o Variable payment terms acceptable when the monthly payment remains constant for each 12-month period over the term, excluding Home Equity Lines of Credit (HELOC's).
o The junior lien has regular payments that cover at least the interest due so that negative amortization does not occur.
o The terms require interest at market rate.
▪ If the financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.
• A Community Seconds mortgage may be funded by a federal agency, municipality, state, county, state or local housing finance agency, a nonprofit organization, a regional Federal Home Loan Bank or an employer. Funds from received from a Community Seconds mortgage may be used to fund all or part of the down payment and closing costs. The funds may not be provided by the property seller or any other interested party to the transaction.
o Financing may be structured in any of the following ways:
▪ Fully amortizing, level monthly payments.
▪ Deferred payments for some period changing to fully amortizing, level monthly payments. Deferred payments over the entire term, unless the mortgage is paid off or the property is sold before the maturity date of the mortgage.
▪ Forgiveness of the debt over time.
• Down Payment Assistance Programs (DPA) are eligible when the following Community Seconds Program requirements are met.
o DU Approve Loans Only
o Primary Residence</td></tr>
</table>

Secondary Financing	o Purchase and Rate &Term Refinance only o Manufactured homes not permitted o May be funded by a federal agency, municipality, state, county or local housing finance agency, non-profit organization, a regional Federal Home Loan Bank or an employer. o Maximum 105% CLTV o May be used to fund all or part of the down payment, closing costs o The more restrictive down payment requirement between the product and the second mortgage will apply. o Income limits imposed by the Community Seconds provider apply o No reporting requirements permitted

Types of Financing	**Purchase Mortgage**
	Rate & Term Refinance (Limited Cash-Out Refinance)
	• Loan amount may include:
	  o Pay off the outstanding principal balance of existing first loan [including existing Home Equity Line of Credit (HELOC) in first lien position] plus any required per diem interest.
	  o Pay off of the outstanding principal balance of any existing subordinate liens that were used in whole to acquire the subject property (purchase money).
	  o Closing costs and prepaids
	  o Prepayment penalties associated with the existing mortgage
	  o Cash-out limited to the lesser of 2% of the principal amount of the new loan or $2000.
	• The subject loan is considered a cash-out refinance if the previous first mortgage transaction combined a first and non-purchase money subordinate lien into a new first. A subsequent refinance of that lien within 6 months (note date to note date) is also considered a cash-out refinance. Provide Closing Disclosure or HUD-1 Settlement Statement(s) from any prior transaction.
	• Delinquent real estate taxes may not be included in the loan amount.
	• Continuity of Obligation is not required to be met for Desktop Underwriter (DU).
	• Subject property may be currently listed for sale, subject to the following:
	  o Property must be taken off the market before the note date of the new mortgage
	  o Borrower provides written confirmation of intent to occupy if a primary residence
	• Owner occupied properties located in Texas
	  o A copy of the current mortgage or note is required to determine the previous terms are not subject to Texas Section 50(a)(6) (also known as Home Equity Deed of Trust, Home Equity Installment Contract or Residential Home Loan Deed of Trust).
	  o If the first or second Texas Section 50(a)(6) loan is being paid off, regardless of whether the borrower is getting any cash back, the loan is restricted to the Texas Home Equity product.
	  o If the first mortgage is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6) loan, the second lien may be subordinated and is considered a rate & term refinance. The second lien must be subordinate. Borrower cannot receive any cash back from the first mortgage transaction.
	
	Cash-Out Refinance
	• Power of Attorney not permitted
	• Ownership
	  o One borrower must have held title to the subject property for at least 6 months, measured from previous note date to subject note date, with the following exceptions:
	    ▪ Delayed Financing
	    ▪ Borrower legally awarded the property (divorce, separation, dissolution of a domestic partnership).
	    ▪ Inherited property
	  o For a manufactured home, one borrower must have held title to both the manufactured home and land for at least 12 months, measured from previous note date to subject note date. No exceptions.
	• Properties that have been listed for sale within the last six months are permitted subject to the following
	  o LTV/CLTV/HCLTV <=70% (Loan to Value/Combined Loan to Value/High Combined Loan to Value)
	  o Property has been taken off the market before the note date
	  o Borrower provides written confirmation of the intent to occupy if primary residence
	• Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
	• Owner occupied properties located in Texas
	  o Owner occupied properties located in Texas subject to Texas Section 50(a)(6) are not eligible.

Types of Financing	o A copy of the current mortgage or note is required to determine the previous terms are not subject to Texas Section 50(a)(6) (also known as Home Equity Deed of Trust, Home Equity Installment Contract or Residential Home Loan Deed of Trust). o If the first or second Texas Section 50(a)(6) loan is being paid off, regardless of whether the borrower is getting any cash back, the loan is restricted to the Texas Home Equity product. o Paying off loans that are not Texas Section 50(a)(6) but are defined as cash-out refinance based on agency guidelines are eligible for this product. Borrower cannot receive any cash back from the transaction.
Underwriting/Automated Underwriting System (AUS) Decisions	• Desktop Underwriter (DU) Approve/Eligible only • Manufactured homes must receive DU Approve/Eligible • Maximum 4 borrowers for DU transactions