Freddie Mac Conforming and Super Conforming Fixed Rate

This matrix is intended as an aid to help determine whether a property/loan qualifies for certain Freddie Mac offered programs. It is not intended as a replacement for Freddie Mac guidelines. Users are expected to know and comply with Freddie Mac's requirements.

NOTE: *This matrix includes overlays which may be **more restrictive** than Freddie Mac's requirements.*

Program Qualifications

- Eligible loans are conforming and super conforming mortgages (using higher maximum loan limits permitted in designated high cost areas) fixed rate only receiving LPA Accept findings

Maximum Loan Amount

2018 Conforming Maximum Loan Amounts		
Units	Contiguous States and D.C.	Alaska & Hawaii
1	$453,100	$679,650
2	$580,150	$870,225
3	$701,250	$1,051,875*
4	$871,450	$1,307,175*

2018 Super Conforming Loan Amounts				
	Contiguous States and D.C.		Alaska and Hawaii	
Units	Minimum Loan	Maximum Loan	Minimum Loan	Maximum Loan
1	$453,101	$679,650	$679,651	$1,019,475*
2	$580,151	$870,225	$870,221	$1,305,325*
3	$701,251	$1,051,875*	Ineligible	Ineligible
4	$871,451	$1,307,175*	Ineligible	Ineligible

Permanent High Cost area the maximum potential loan limits for designated high-cost areas. Actual loan limits are established for each county (or equivalent) and the loan limits for specific high-cost areas may be lower. The original balance of a Mortgage must not exceed the maximum loan limit for the specific areas in which the mortgage premises is located. For specific loan limits for each high cost area, as released by the Federal Housing Finance Agency visit
http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx
***Maximum Loan Amount in all cases may not exceed $1,000,000.**

For super conforming mortgages, the loan amount of the mortgage stated in the note is used to determine compliance with the maximum loan limits stated above.

Eligibility Matrix Loan Amount & LTV Limitations

- *Any references to LTV ratios include LTV, TLTV, and HTLTV ratios, unless otherwise noted.*
- *References to Rate/Term include Freddie Mac's "no cash-out" refinance program*
- *The matrix may not include all eligibility criteria applicable to the subject transaction*

Conforming and Super Conforming Fixed Rate Mortgage Loans
Primary Residence, Second Home and Investment
(see Matrix 2 for Manufactured Homes)

Transaction Type	Occupancy	Units	Max LTV	Max TLTV	Max HTLTV	Credit Score	Maximum Cash-Back
Purchase & Rate/Term Refi	Primary Residence	1	95%[4]	95%	95%	620	Ineligible
		2	85%	85%	85%	620	Ineligible
		3-4	80%	80%	80%	620	Ineligible
	Second Home	1	90%	90%	90%	620	Ineligible
Purchase & Rate/Term Refi	Investment	1	85%	85%	85%	620	Ineligible
		2-4	75%	75%	75%	620	Ineligible
Cash-Out	Primary Residence	1	80%	80%	80%	620	No limit
		2-4	75%	75%	75%	620	No limit
	Second Home	1	75%	75%	75%	620	No limit
	Investment	1	75%	75%	75%	620	No limit
		2-4	70%	70%	70%	620	No limit

Footnotes

1. Condominiums – See *Property Types* for eligibility

2. HTLTV (HELOC TLTV) = first lien balance + total HELOC amount (funded plus unfunded portion) ÷ the lesser of the appraised value or sales price (if applicable).
3. See *Home Possible* and *Home Possible Advantage* sections for qualifications on these products.
4. See *Mortgage Insurance* for additional conditions

Matrix 2
Conforming Fixed Rate Mortgage Loans
Manufactured Homes - Primary Residence and Second Home

Transaction Type	Occupancy	Units	Max LTV	Max TLTV	Max HTLTV	Credit Score	Maximum Cash-Back
Purchase & Rate/Term Refi	Primary Residence	1	95%[4]	95%	95%	620	Ineligible
	Second Home	1	85%	85%	85%	620	Ineligible
Cash-Out	Primary Residence	1	65% Term ≤20 years	65%	65%	620	No Limit

Footnotes
1. HTLTV (HELOC TLTV) = first lien balance + total HELOC amount (funded plus unfunded portion) ÷ the lesser of the appraised value or sales price (if applicable).
2. Cash Out term must be ≤ 20 years
3. Super conforming mortgages are not allowed for manufactured homes (Freddie Mac guideline)
4. See *Mortgage Insurance* for additional conditions

Product Description
- Fixed Rate 10, 15, 20, 25 and 30 years – Conforming and super conforming loan amounts
- Fully Amortizing
- Home Possible mortgages (See *Home Possible* and *Home Possible Advantage* in *Eligibility Requirements*)
  - Conforming loan amounts only. Not available for Super Conforming mortgages.

Product Codes

Conforming Loan Amounts

Prod Code	Product Description
210	Freddie Mac 10 YR Fixed
215	Freddie Mac 15 YR Fixed
220	Freddie Mac 20 YR Fixed
225	Freddie Mac 25 YR Fixed
201	Freddie Mac 30 YR Fixed
	Home Possible and Home Possible Advantage
HP210; HPA210	Home Possible 10YR Fixed Home Possible Advantage 10YR Fixed
HP215; HPA215	Home Possible 15YR Fixed Home Possible Advantage 15YR Fixed
HP220; HPA220	Home Possible 20YR Fixed Home Possible Advantage 20YR Fixed
HP230; HPA230	Home Possible 30YR Fixed Home Possible Advantage 30YR Fixed

Super Conforming Loan Amounts

Product Code	Product Description
210SC	Freddie Mac Super Conforming 10 YR Fixed
215SC	Freddie Mac Super Conforming 15 YR Fixed
220SC	Freddie Mac Super Conforming 20 YR Fixed
201SC	Freddie Mac Super Conforming 30 YR Fixed

Eligibility Requirements

Appraisal Requirements	**Property Condition – Properties with a Condition Rating of C5 or C6 are not eligible.** Appraiser must have current appraisal license Appraisal must include the following. • Interior and exterior photos • FNMA form 1004/FHLMC Form 70 The subject property must represent the highest and best use of the property as improved (or as proposed per plans and specifications) and the use must be a legal or legal non-conforming use (commonly referred to as grandfathered use). Any adverse effect of non-conforming use must be reflected in the opinion of value. Requirements for properties in established subdivisions, units in established Planned Unit Developments (PUDs) or units in established condominium projects (5601.12(f)): • The appraiser should use comparable sales from within the subject subdivision or project.

	Requirements for properties in new subdivisions, units in new PUDs or units in recently converted or new condominium projects(5601.12(f)):
	• The appraiser must use comparable sales from within the subject subdivision or project as well as comparable sales in other subdivisions or projects to help demonstrate the marketability of new developments or recently converted projects and the market value of the property. The appraiser must use:
	  ○ One comparable sale from inside the subject subdivision or project
	  ○ One comparable sale from outside the subject subdivision or project, and
	  ○ One comparable sale from inside or outside the subject subdivision or project
	• If there are no settled or closed comparable sales from inside the subject subdivision or project, contract/pending sales from inside the subject subdivision or project are acceptable, as long as three comparable sales are actual settled or closed sales. The comparable sale from inside the subject subdivision or project can be a sale by the builder or developer of the subject property. (Bulletin 2017-3)
	
	Additional appraisal requirements for units in detached condominium projects (5701.8(a)(iii)):
	• The appraiser must use similar detached condominium comparable sales from the same project or from similar detached condominium projects in the same market area. The appraiser may use detached comparable sales that are not located in a condominium project only if the appraiser supports the use of such sales in the appraisal report and reflects any effect that the condominium form of ownership has on the market value and marketability of the subject property.
	
	Appraisal must be obtained in a manner consistent with the requirements of Appraiser Independence Requirements (AIRs).
	
	Note: The Property Inspection Alternative (PIA) and Form 2070, *Loan Prospector Condition and Marketability Report*, have been retired to align the Selling Guide with current Loan Product Advisor offerings.
	
	An appraisal is valid for 120 days to note date. (5601.8).
	
	Appraisal Desk Review Report – Form 1033 (Bulletin 2017-3)
	When obtaining an appraisal desk review report for one-unit properties, Form 1033 must be used.
	
	Reconciling multiple opinions of market value (5601.13c, Bulletin 2017-3)
	The requirement to use the lower value when multiple appraisals are considered to be equally accurate and well supported has been removed. The appraisal review and reconciliation process must result in the most accurate and supported opinion of market value.
	
	Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier.

Assets	All funds used to qualify the borrower for the mortgage transaction, including but not limited to down payment, closing costs and reserves, must be verified and come from eligible sources (5501.1). Closing costs include prepaids/escrows and costs referred to as financing costs. For reserves see *Reserves* section of these guidelines. Evaluated per LPA and Freddie Mac guidelines with the following restrictions • Stand-alone VOD (Verification of Deposit) is ineligible. The bank statement must show account activity for a full two month period. The documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document. **See Freddie Mac Selling Guide sections 5501.1 to 5501.6.** Direct Account Verifications and Asset Account Statements (5501.3(a)(i)) Documentation must • Identify the financial institution • Identify the account number, which at a minimum must include the last four digits • Identify any loans secured by the asset Computer-Generated Transaction Histories (5501.3(a)(i)) The transaction history must identify the name of the institution and the source, and include the information required in 5501(a)(i) for asset account statements, unless: • It is used in combination with other asset verifications containing the missing information, and • It can clearly establish that the transaction history pertains to the same account Verifiable Funds – Acceptable Sources of Deposit (5501.3(a)(iii)(B)) Examples of acceptable sources of deposit include:

	• The borrower's income
	• Funds awardee to the borrower provided the source is not an interested party to the real estate or mortgage transaction, such as
	  ○ Disaster relief funds
	  ○ Lottery winnings
	  ○ Court-awarded settlement
	• Funds derived from eligible asset types ((5501.3(b) and 5501.3(c))
	
	Account Access (5501.3(b)(ii))
	• All accounts held in financial institutions must be owned by the borrower and the borrower must have access to the funds
	• Funds in accounts that are owned jointly by the borrower and a non-borrower are considered borrower personal funds
	NOTE: Custodial accounts may be used. Use caution. Make sure borrower has access to the money in the accounts and is not just the manager or "paid on death" beneficiary.
	
	Wedding Gifts (5501.3(c)2)
	Gift funds received as a wedding gift form unrelated and/or related persons are an eligible source of funds for a mortgage secured by a primary residence only. Provide the following:
	• A copy of the marriage license or certificate
	• A verification of the gift funds in the borrower's depository account
	• Evidence the gift funds are on deposit in the borrower's depository account within 60 days of the date of the marriage license or certificate.
	
	Borrower's Real Estate Commission (5501.3(b)(ii)
	When the borrower is a licensed real estate agent that is due to receive a sales commission from their purchase of the subject property, the Settlement/Closing disclosure Statement must reflect the commission earned by the borrower and credited toward the mortgage transaction.
	NOTE: A relative who is a broker may not gift his/her commission to the borrower on the subject transaction.
	
	Earnest Money Deposits (EMD) (5501.3(b)(iii)
	If the EMD is needed to qualify the borrower, then obtain evidence that the EMD check cleared the borrower's account. Examples may include:
	• A copy of the canceled check,
	• asset account statement, or
	• a written statement form the EMD holder verifying receipt of the funds
	
	Business Accounts Used for Closing (5501.3(b)(iv)
	• A CPA letter is not specifically required however the underwriter does need to determine and document that withdrawal of business funds will not adversely affect the business.
	• Documentation of large deposits as described in 5501.3(a)(iii) is not required provided that underwriter:
	  ○ Reviews a minimum of the most recent two months of the business account statements and
	  ○ Determines the deposits are typical for the borrower's business
	• When business assets are being used for closing, there are some additional considerations when analyzing the self-employed borrower as noted in 5304.1(f).
	NOTE: Business funds are not required to be transferred to a personal account prior to closing.
	
	Sources of Funds outside the U.S. and its territories (5501.3(b)(v)
	• Funds must be transferred into a United States or state-regulated financial institution and verified in U.S. dollars prior to the closing of the mortgage transaction…or
	• Combined value of the assets must be at least 20% greater than the amount from these assets needed for closing.
	See 5102.3(b) for additional requirements when funds from outside the United States and its territories are used to qualify the borrower for the mortgage transaction.
	
	Lender Credit (5501.6)
	Lender credit may be used for the mortgage transaction provided it meets **all** of the following requirements:
	• Lender credit may only be used as a credit towards the borrower's closing costs and must not exceed the amount of the borrower's closing costs
	• Lender credit derived from an increase in the interest rate must not be used as a credit towards funding a temporary subsidy buy down plan on a "no cash-out" refinance mortgage
	
	Eligible Asset Types for Borrower Personal Funds (5501.3(b)(ii)

- Depository accounts
  Depository accounts used to deposit and withdraw cash, such as:
  - Checking, savings, money market, certificated of deposit (CD), other depository accounts
- Securities
  Securities that are traded on an exchange or marketplace, generally available to the public such as:
  - Stocks, vested stock options, bonds, mutual funds, United States government securities, other securities
- Retirement accounts
  Independent retirement accounts and Internal Revenue Service (IRS)-qualified employer retirement plan accounts such as:
  - 401K, 403b, IRAs (traditional and Roth), SEP-IRQA, SIMPLE-IRA, KEOGH, MyRA, state retirement savings plans, other independent and IRA-qualified employer retirement plan accounts
- Government bonds (federal, state or municipal)
  The value used must be based on the lower of the purchase price or current redeemable value.
- Proceeds from a loan fully secured by the borrower's assets other than real property
  The loan must not be provided by an interested party to the real estate or mortgage transaction. When the loan is secured by a financial asset used to qualify the borrower for the mortgage transaction, the value of the asset must be reduced by the amount of the loan proceeds and any associated fees.
- Proceeds from the sale or refinance of the borrower's real property (including proceeds from a 1031 exchange or a bridge loan)
  For cash-out refinance mortgages, the cash-out proceeds from the subject refinance transaction is not an eligible source of funds for reserves.
- Proceeds from the sale of the borrower's assets other than real property or exchange-traded securities
  The purchaser of the borrower's asset must not be an interested party to the real estate or mortgage transaction.
- Borrower's real estate commission
  Borrower's real estate commission is an eligible source of funds for down payment and/or closing costs when the borrower is a licensed real estate agent that is due to receive a sales commission from their purchase of the subject property.
- Funds from a trust
  The borrower must be the beneficiary and have access to the funds as of the date of the loan closing. The borrower's portion of undistributed trust funds may be used as reserves only.
- Individual Development Account (IDA) – Agency matching funds not subject to recapture
  - Any matching funds may be considered borrower personal funds
  - A maximum of a 4 to 1 match by an Agency's funds is permitted
  - The borrower must satisfy any vesting requirements of the matching IDA program
- Community Savings System accounts – Borrower contributions
  Funds on deposit in a Community Savings System that are deposited by the borrower. A non-profit community organization must administer the savings program.
- Pooled funds
  Pooled funds are funds on deposit provided by the borrower and other member(s) of a group of related persons who:
  - Have resided together for at least one year, and
  - Will continue residing together in the new residence, and
  - Are "pooling" their funds to buy a home

  Funds provided by related persons who do not reside with the borrower are subject to the requirements of Section 5501.3(c) for gift funds.
- Borrower's revolving credit card (charges/cash advances) or unsecured line of credit
  Borrower's revolving credit card (charges/cash advances) or unsecured line of credit used to pay fees associated with the mortgage application process (e.g., origination fees, commitment fees, lock-in fees, appraisal, credit report and flood certifications) are subject to the following requirements:
  - The 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 to qualify for the mortgage transaction; 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 (5401.2)
- Cash value of a life insurance policy (not the face value)
  The borrower must be the owner of the policy and not the beneficiary
- Rent credits
  The portion of rental payments paid by the borrower credited towards the down payment and/or closing costs under a documented rental/purchase agreement. The credit must not exceed the difference between the market rent and actual rent paid. The rental/purchase agreement must have an original term of at least 12 months and the rent must be based on a minimum of 12 months rental payments.
- Trade equity: Net proceeds of the trade-in of the borrower's previously owned residence

The borrower's equity in the previously-owned residence id determined by subtracting any outstanding liens on the previously-owned residence, plus any transfer costs, from the lesser of the appraised value of the previously-owned residence or tis trade-in price as shown I the trade-in contract.

When assets that are invested in stocks, bonds, mutual funds, U.S. government securities, retirement accounts or other securities are needed for closing, evidence of liquidation is required **unless** the combined value of the assets is at least 20% greater than the amount from these assets needed for closing.

Large Deposits (5501.3(a)(i))
Except as stated below, the underwriter is not required to document the sources of unverified deposits for purchase or refinance transactions. However, when qualifying the borrower, the underwriter must consider any liabilities resulting from all borrowed funds. For purchase transactions:

- The underwriter must document the source of funds for any single deposit exceeding 50% of the total monthly qualifying income for the mortgage, otherwise referred to as a "large deposit," if the deposit is needed to qualify the borrower for the mortgage transaction.
- When a single deposit consists of both verified and unverified portions, the underwriter may use just the unverified amount when determining whether the deposit is a large deposit as described above.
- When a large deposit is not verified and is not needed to qualify the borrower for the mortgage transaction, the underwriter must reduce the funds used for qualifying purposes by the amount of the unverified deposit. For Loan Product Advisor Mortgages, the underwriter must enter the reduced amount of the asset into Loan Product Advisor.
- 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 (e.g., tax refund amounts appearing on the tax returns in the file), the underwriter is not required to obtain additional documentation.

Borrower Investment

- Primary residence (5501.3(b))
  - 1-4 units, no minimum contribution required
  - Greater than 80% LTV no longer requires 5% contribution from borrower's own funds when a gift or gift of equity from a related person is used. Part or all of down payment may be gifted.
- Second home loans (5501.3(b))
  - Greater than 80% LTV requires a 5% investment from borrower's own funds, excluding gifts.
- Investment property loans require entire down payment from borrower's own funds, gift ineligible.

Interested Party Contributions (5501.5)– IPCs: Basis for the limit is LTV/TLTV ratio as follows:

- Primary Residence and Second Homes (Conforming loan amounts)
  - 3% for LTV/TLTV > 90%
  - 6% for LTV/TLTV > 75% ≤ 90%
  - 9% for LTV/TLTV ≤ 75%
- Primary Residence and Second Home (Super conforming loan amounts)
- Investment Properties (both conforming and super conforming loan amounts)
  - 2% at all LTV/TLTVs

Abatements
Note: Funds provided by an interested party to pay or reimburse in whole or in part a certain number of monthly payments (i.e., abatements) of principal, interest, taxes, insurance and/or other assessments on the borrower's behalf in excess of Prepaid/Escrows associated with the mortgage closing are not eligible. (5501.5)

The payment of no more than 12 months of homeowners association dues by an interested party is **not** considered an abatement but is considered an interested party contribution, subject to the above limitations. The funds for the payment of the homeowners association dues must be collected at closing and transferred directly to the homeowners association, as documented on the Settlement/Closing Disclosure Statement

Gifts

- Primary Residence and Second Homes
  - Eligible provided the required Borrower investment is met (i.e.., second home, LTV > 80%)
  - Gift letter signed by the donor must be retained in the loan file
- Investment Properties
  - Gift ineligible

Gift or Gift of Equity from a Related Person (5501.3(c))
A gift letter signed by the donor is required. Information provided in the gift letter must:

- State the donor's name and that the funds are given by a related person
- Include the donor's mailing address and a telephone number
- State the amount of the gift funds or gift of equity

	• Establish that the gift funds or gift of equity are a gift that does not have to be repaid Gift funds: If the verifications provided in the mortgage file do not show evidence that the gift funds have been deposited in the borrower's account, the borrower must provide evidence of the transfer of funds from the donor to the borrower. Gift of equity: A gift of equity must be reflected on the Settlement/Closing Disclosure Statement. Note: The mortgaged premises does **NOT** need to be identified in the gift letter .
Assumptions	Ineligible
Borrower Eligibility	Eligible • US Citizen • Permanent resident alien • Non-permanent resident alien (maximum 80% LTV/CLTV/HCLTV on 1-unit primary residence and second homes only; other restrictions apply) • Inter Vivos Revocable Trust (5103.5) • Note: A Power of Attorney is not allowed on properties held in a trust Ineligible • Foreign Nationals
Co-borrowers	Eligible • LPA Accept required • Ratios determined by LPA • Non-occupying borrower eligible per LPA (5103.1) ○ Required funds (including the down payment, closing costs, and reserves) may come from the occupant borrower and/or the non-occupying borrower.
Credit	**Mandatory review of MI Section is required** For Accept Mortgages, Loan Product Advisor has determined that a borrower's credit reputation is acceptable LPA Accept is required • Regardless of receiving an LPA Accept the Underwriter must determine that each borrower individually and all borrowers collectively have an acceptable credit reputation. • Housing (Mortgage/Rental) Payment History (PITIA) is inclusive of all liens regardless of position, as well as all occupancy types. • Mortgage history evaluated by AUS Credit scores must be obtained no more than 120 days prior to the Note Date. Generally all borrowers must have usable Credit Score(s). (See Borrowers without usable Credit Scores below) Adverse or Derogatory Credit For Accept Mortgages, the significance of the derogatory information has already been considered by Loan Product Advisor and the Borrower's credit reputation has been deemed acceptable. Verification of Payment History For Accept Mortgages where all Borrowers have a usable Credit Score, direct verification of debts that are not listed on the credit reports (including Mortgage debt and rent) is not required. Borrowers without usable Credit Scores – Exception for Primary Residence (5201.1(c)): • One borrower on every loan must have a useable credit score as determined by Loan Product Advisor • The transaction is a purchase or "no cash-out" refinance Mortgage • The Mortgage is secured by a 1-unit property and all Borrowers occupy the property as their Primary Residence • Borrowers with a usable Credit Score contribute more than 50% of the total monthly income • Borrowers without a usable Credit Score are not self-employed • For all Borrowers without usable Credit Scores, any debt that is not reported to the credit repositories must be verified to have a satisfactory payment history and the payment must be included in the monthly debt payment-to-income ratio. • Loans > 80% LTV with one or no score borrowers are subject to Mortgage Insurers requirements for eligibility. Ineligible • Manual Underwriting •

<table>
<tr><td>Documentation</td><td>Document as determined by LPA Findings with Risk Grade of Accept (streamlined accept and standard documentation), Freddie Mac Selling Guide and LSM guidelines

LSM will accept digitally signed documents per Freddie Mac guidelines.

A copy of the divorce decree is required when the loan file indicates income or liability due to divorce.</td></tr>
<tr><td>Escrow Waivers</td><td>Property tax and insurance escrows may be waived for LTV ≤ 80%.
Individual state laws may supersede this requirement.</td></tr>
<tr><td>Financing Types</td><td>Purchase Mortgages
Refinance Mortgages

<u>Manufactured Home Restriction</u>
<u>Note: A mortgage with proceeds that are used to pay the outstanding balance under a land contract or contract for deed is ineligible (Freddie Mac 5703.3)</u>

<u>Construction Conversion Mortgages – (4602)</u>
Transactions where the mortgage proceeds are used to replace interim construction financing must meet requirements of Chapter K33.
• For “no cash-out” refinance construction Conversion Mortgages <u>secured by Manufactured Homes</u>, at least one borrower must have been on the title to the land for 12 months or more prior to the effective date of permanent financing
• For cash-out refinance Construction Conversion Mortgages, at least one borrower must have been on the title to the land for six months or more prior to the effective date of permanent financing.

<u>General Requirements for all refinance mortgages</u> (4301.2)
• 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 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
• At least one borrower on the refinance mortgage inherited or was legally awarded the mortgaged premises (for example, in the case of divorce, separation or dissolution of a domestic partnership).

<u>Requirements for Rate/Term (“no cash-out”) refinance mortgages (4301.4)</u>
Proceeds may be used only to:
• Pay off the first mortgage, regardless of its age.
• Pay off any junior liens secured by the mortgaged premises, that were used in their entirety to acquire the subject property
• Pay related closing costs, financing costs and prepaids/escrows and
• Disburse cash out to the borrower (or any other payee) not to exceed 2% of the new refinance mortgage or $2,000, whichever is less
• Pay off the outstanding balance of a land contract or contract for deed if the contract was executed greater than 12 months prior to refinance application (other requirements apply).
• If there are excess proceeds:
  o The mortgage amount must be reduced: or
  o The excess must be applied as a principal curtailment to the new refinance mortgage at closing and must be clearly reflected on the Settlement/Closing Disclosure Statement.
• Under no circumstances may cash disbursed to the borrower (or any other payee) exceed the maximum permitted for “no cash-out” refinance mortgages.
• Settlement/Closing Disclosure Statement(s) required from any transaction within past 6 months. If previous transaction was a cash-out or if it combined a first and non-purchase money subordinate into a new first, loan to be coded cash out. If new transaction combines a first and non-purchase money subordinate into a new first loan, it is considered cash out.

• Owner occupied properties located in Texas with new or existing Texas Section 50 (a)(6) loans are eligible.
  • 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 Section 50(a)(6)
  • If the first mortgage is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6), the second lien may be subordinated and is considered a rate and term refinance. The second lien must be subordinate to the first mortgage and a subordination agreement must be executed. Borrower cannot receive any cash back from first mortgage transaction.
  • If a Texas Section 50(a)(6) second lien is being paid off, the loan is restricted to the Texas Home Equity Section 50(a)(6).</td></tr>
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- The title policy will reference the Texas Section 50(a)(6).

Properties listed for sale within the last six months are eligible as follows:

- Property has been taken off the market on or prior to the application date.
- Borrower provides written confirmation of the intent to occupy if a primary residence

<u>Requirements for cash-out refinance mortgages (4301.5)</u>

- A mortgage placed on a property previously owned free and clear by the borrower is always considered a cash-out mortgage.
- At least one borrower must have been on the title to the property for at least six months prior to the Note Date except as specified below.
- If none of the borrowers have been on the title to the subject property for at least six months prior to the Note Date of the cash-out refinance mortgage, the following requirements must be met:
  - At least one borrower on the refinance mortgage inherited or was legally awarded the subject property (for example, in the case of divorce, separation or dissolution of a domestic partnership)
<u>OR</u>, all of the following:
  - The Settlement/Closing Disclosure Statement from the purchase transaction must reflect that no financing secured by the subject property was 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
  - The cash-out mortgage must meet all other Freddie Mac requirements.
- Transactions in which a portion of the cash-out 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 are ineligible (4404.1). Payoff of land contract may only be done as purchase or rate/term transaction. (**Manufactured Homes not allowed on mortgages used to pay off land contracts.)**
- Owner occupied properties located in Texas with new or existing Texas Section 50 (a)(6) loans are eligible.
  - 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 Section 50(a)(6).

Lost Note Affidavits are not an acceptable substitute for any of the required documents. If original documentation cannot be provided per above, then a CEMA is not allowed.

</td></tr>
<tr><td>

Overlay

</td><td>

<u>Amended Tax Returns</u>:

- Will not be considered if within 60 days of the purchase contract or application date (whichever is earler) and;
- Will not be considered if documentation cannot be provided to support the increase and;
  - Example(s): 1099 missed and increase is exact amount, schedule E missed and cancelled checks for rent provided.
- Will not be considered until transcripts reflect amended income.

</td></tr>
<tr><td>

Geographic Locations/Restrictions, as applicable

</td><td>

Eligible states are as follows:

- AZ, CA, CO, DC, FL, GA, IL, IN, KY, LA, MD, MA, MT, MI, MN, NV, NM, NJ, NC, OH, OR, PA, SC, TX, UT, VA, WA and WI
- **<u>Note:</u>** Texas Cash-out 50(a)(6) loans are eligible.

</td></tr>
</table>

	Per Bulletin 2015-13, Commencing on the effective date for the TRID Rule established by the CFPB, lenders must use the revised Fannie/Freddie Form 3185 Texas Home Equity Affidavit and Agreement which shows a version date of 12/07 (rev. 06/15). Additional restrictions as follows: Properties located in Illinois in counties of Cook, Kane, Peoria or Will requires copies of the following to be closely reviewed: (1) A copy of the Certificate of Compliance with the counseling requirements or the Certificate of Exemption, if the lender or transaction is exempt and (2) A copy of Title Commitment free from any exceptions related to the anti-predatory lending database requirements. State specific regulatory requirements supersede all underwriting guidelines set forth by LSM. Note: The following states have specific anti-predatory lending laws. Mortgages designated as "high-cost," high-risk" or similar mortgages are not eligible: CO, GA, IL, IN, KY, OK
High-Cost Mortgage Loans	LSM does not originate or purchase high-cost mortgage loans (12 CFR 1026.32)
Higher-Priced Mortgage Loans	Higher-Priced Mortgage Loan (HPML) - Definition A first-lien mortgage secured by a Primary Residence that has an annual percentage rate (APR) of 1.5% or more above the average prime offer rate (APOR) for a comparable transaction as of the rate lock date. Higher-Priced Mortgage Loans eligible for sale to Freddie Mac must be one of the following mortgage products: • A fixed rate mortgage
Home Possible	Refer to Freddie Mac Selling Guide Chapter 4501 for complete guidelines. Home Possible Offering Identifier Code = 241 Must enter into Loan Product Advisor (LPA) Home Possible mortgages have the following characteristics: • First lien mortgage • Maximum term 30 years (except manufactured homes) ○ MFH follow standard Freddie Mac guidelines (5703.3d) (see below) • Purchase or "no cash-out" refinance • 1-4 unit primary residence Super Conforming mortgages are **not** allowed. Manufactured Homes MFH loans follow standard Freddie Mac guidelines (5703.3d) Where the requirements of Chapter 5703 and these guidelines conflict: • Minimum contribution from borrower personal funds on purchase transactions and the eligible sources of funds for down payment, closing costs, financing costs, prepaids/escrows, and reserves may be those permitted for Home Possible Mortgages. • Mortgage insurance coverage levels must be those used for mortgages secured by a manufactured home Income Limits The income used to qualify the borrower, converted to an annual basis, must not exceed 100% of the area median income (AMI) or the percentages (income multipliers) in the designated high-cost areas listed below. There is no income limit if the mortgaged premises is located in an Underserved Area.

State	**County**	**Income Multiplier**
California	All Counties	140%
Hawaii	All Counties	170%
Massachusetts	Essex County	135%
	Middlesex County	135%
	Norfolk County	135%
	Plymouth County	135%
	Suffolk County	135%
New Hampshire	Rockingham County	135%
	Strafford County	135%
New Jersey	Bergen County	165%
	Essex County	165%

	Hudson County	165%
	Hunterdon County	165%
	Middlesex County	165%
	Monmouth County	165%
	Morris County	165%
	Ocean County	165%
	Passaic County	165%
	Somerset County	165%
	Sussex County	165%
	Union County	165%
New York	Bronx County	165%
	Duchess County	165%
	Kings County	165%
	Nassau County	165%
	New York County	165%
	Orange County	165%
	Putnam County	165%
	Queens County	165%
	Richmond County	165%
	Rockland County	165%
	Suffolk County	165%
	Ulster County	165%
	Westchester County	165%
Oregon	Clackamas County	120%
	Columbia County	120%
	Multnomah County	120%
	Washington County	120%
	Yamhill County	120%
Pennsylvania	Pike County	165%
Washington	Clark County	120%
	King County	120%
	Pierce County	120%
	Skamania County	120%
	Snohomish County	120%

For Loan Product Advisor (LPA) mortgages, LPA will determine the income eligibility of the mortgage.

Ownership of other residential property

The borrower must not have an ownership interest in any other residential property as of the Note Date, except as stated below:

- If the borrower does not occupy the other property and the underwriter documents:
  - The borrower inherited their ownership interest in the property and shares ownership with another party, or
  - The borrower owns the property with another party and the debt associated with the property was assigned to the other party by a court order (e.g., a divorce decree), or
  - The borrower is a cosigner/guarantor on the related mortgage debt and someone other than the borrower has made payments on the debt associated with the property for the most recent 12 months, as documented with copies of canceled checks or a statement from the lender.

Rental Income

Rental income from a 1-unit primary residence may be considered as stable monthly income provided it meets Freddie Mac guidelines or the following:

- Connection with borrower – The person providing the rental income and the borrower:
  - Have resided together for at least one year
  - Will continue residing together in the new residence, and
  - The person providing the rental income provides appropriate documentation to evidence residency with the borrower (e.g., copy of a driver's license, bill, bank statement, etc., that shows the address of that person to be the same as the borrower's address)
- Rental payment – Rental income from the person residing in the mortgaged premises:
  - Has been paid to the borrower for the past 12 months on a regular basis
  - Can be verified by the borrower with evidence showing receipt of regular payments of rental income to the borrower for the past 12 months (i.e., copies of canceled checks)
  - Does not exceed 30% of total income used to qualify for the mortgage
- The mortgage file must contain a written statement from the borrower affirming:

- The source of the rental income
- The fact that the person providing the rental income has resided with the borrower for the past year and intends to continue residing with the borrower in the new residence for the foreseeable future

Rental income form a 2-4 unit primary residence must meet Freddie Mac guidelines (5306.1).

Debt to Income (DTI) Ratios
DTI ratios are determined by Loan Product Advisor (LPA)

Calculation of qualifying income
The underwriter must attempt to verify all income reported on the URLA (Form 1003/1065) in accordance with Freddie Mac guidelines (sections 5302 through 5307). Any discrepancies, including underreported income, must be corrected before submitting the mortgage to LPA. All income reported on the URLA that has been verified and that meets the criteria for stable monthly income per Freddie Mac guidelines (topic 5300) must be used to qualify the borrower and must be submitted to LPA.

Credit
The borrower's credit reputation is acceptable if the mortgage is submitted to Loan Product Advisor and receives a Risk Class of Accept.

Affordable Seconds – see 4204.2

LTV/TLTV/HTLTV Ratios for Home Possible Mortgages

Property Type	Maximum LTV	Maximum TLTV	Maximum HTLTV
1-4 unit	95%	95%	95%
Manufactured Home	95%	95%	95%

Borrower Contribution

Minimum Contribution from Borrower Personal Funds*		
Property Type	Home Possible with LTV/TLTV/HTLTV ratios ≤ 80%	Home Possible with LTV/TLTV/HTLTV ratios > 80% ≤ 95%
1-unit	None	None
2-4 unit	None	3%
Manufactured Home	None	None

* Stated as a percentage of value

Reserves

Property	Home Possible
1-unit	None required
2-4 unit	Two months

Underwriter must verify all reserves required by LPA. The above required reserves are included in the amount of reserves that LPA will require.

Sources of Funds
The following sources of funds are permitted and must meet Freddie Mac requirements (4501.10 (c)(i, ii, iii)).

Use	Permitted Sources of Funds
Minimum Borrower contribution	Borrower Personal Funds
Down payment for purchase transaction (the difference between the purchase price and the First Lien amount)	Borrower Personal Funds Other Borrower Funds
Additional Equity if needed for a "no cash-out" refinance transaction	Borrower Personal Funds Other Borrower Funds
Closing Costs, Financing Costs, Prepaids/Escrows	Borrower Personal Funds Other Borrower Funds Flexible sources of funds
Reserves	Borrower Personal Funds Other Borrower Funds

	Eligible Assets, as described in 5501.3(b)

Borrower Personal Funds
When used with Home Possible mortgages, borrower personal funds include:

- Borrower personal funds as described in 5501.3(b)
- Cash on hand, if the following requirements are met:
  - The underwriter reasonably concludes, and can support, that the borrower is a cash-basis individual and that the cash on hand is not borrowed and could be saved by the borrower
  - The mortgage file contains the following documents supporting the lender's conclusion:
    - A completed Exhibit 23, Monthly Budget and Residual Analysis Form, or another document containing the same information, confirming that the total monthly residual income available for savings is a positive number
    - Copies of six months cash receipts (e.g., rent or utility receipts) or other alternative documentation (e.g., direct verifications or wire transfers) meeting the requirements of section 5202.2(b) to verify that recurring obligations, including the payment of revolving and installment debt, are customarily paid in cash
    - A credit report, obtained at the time of loan application, meeting the requirements of section 5203.1. The credit report must not show more than three tradelines.
    - Copies of three months statements for any open revolving account that reveal cash advances are not the source of borrower funds. Any cash advances must be explained and documented (e.g., a cash advance used in an emergency situation).
  - The mortgage file must have no indication that the borrower typically uses checking, savings or similar accounts
  - Evidence that funds for the down payment, closing costs, financing costs, prepaids/escrows and reserves are deposited in a financial institution or are held in an institutional escrow account prior to closing

Other Borrower Funds
When used with Home Possible mortgages, other borrower funds include:

- Other borrower funds as described in section 5501.3(c)
- For purchase transactions, proceeds from an unsecured loan meeting the requirements of section 5501.4 from the following sources:
  - An Agency
  - A related person, or
  - A Community Savings System (funds in excess of the borrower contribution to the Community Savings System)
  - Proceeds from an Affordable Second or other secondary financing that meets the requirements in Chapter 4204. Any secondary financing subordinated to a Home Possible Advantage Mortgage must be an Affordable Second.

Flexible sources of funds
When used with Home Possible mortgages, flexible sources of funds include:

- Financing concessions as described in section 4204.3(b) meeting the applicable requirements of section 4204.3
- Lender credit derived from increase in interest rate

Note: Sweat equity is not allowed (LSM overlay)

Mortgage Insurance (4707.1)

Transaction Type	**Mortgage Insurance Coverage***	**LTV Ratio**			
		> 80% & ≤ 85%	> 85% & ≤ 90%	> 90% & ≤ 95%	> 95% & ≤ 97% (applies to Home Possible Advantage only)
Home Possible, fixed rate, ≤ 20 years	Standard	6%	12%	25%	25%
Home Possible fixed rate, > 20 years; and all Manufactured Homes**	Standard	12%	25%	25%	25%

*Custom Mortgage Insurance coverage is not allowed (LSM overlay)

	**Manufactured Homes are limited to maximum 95% LTV/CLTV/HCLTV Homeownership Education When all the borrowers are First Time Homebuyers* for purchase transaction Home Possible mortgages, at least one qualifying borrower must participate in a homeownership education program before the Note Date. *First Time Homebuyer: A first time homebuyer is an individual who meets all of the following requirements: • Is purchasing the mortgaged premises • Will reside in the mortgaged premises as a primary residence • Had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the mortgaged premises In addition, a displaced homemaker or a single parent may also be considered a first time homebuyer if the individual had no ownership interest in a residential property during the preceding three-year period other than an ownership interest in the marital residence with a spouse. If a displaced homemaker or a single parent solely owned the marital residence, or solely or jointly owned a second home or investment property, the individual may not be considered a first time homebuyer. If a Living Trust is purchasing the mortgaged premises, then for purposes of this definition, an underwritten settlor of that Living Trust will be deemed to be purchasing the mortgaged premises. Homeownership education must not be provided by: • An interested party to the transaction, • The originating lender • The Seller (Freddie Seller/Servicer) Homeownership education programs may use different formats and require different lengths of time to complete. The following are acceptable: • Programs developed by HUD-approved counseling agencies, Housing Finance Agencies (HFAs) or Community Development Financial Institutions (CDFIs) • Homeownership education programs developed by mortgage insurance companies or other providers' programs that meet the standards of the National Industry Standards for Homeownership Education and Counseling (www.homeownershipstandards.com) As an alternative to the programs listed above, Freddie Mac's free financial literacy curriculum, CreditSmart, meets the homeownership education requirements, provided: • The borrower completes the online Credit Smart – Steps to Homeownership tutorial, which includes Module 1 (Your Credit and Why It is Important), Module 2 (Managing Your Money), Module 7 (Thinking Like a Lender), Module 11 (Becoming a Homeowner), and Module 12 (Preserving Homeownership: Protecting Your Investment) • The financial literacy curriculum is not provided by an interested party tot eh transaction, the originating lender or the Seller (Freddie Seller/Servicer) A copy of Exhibit 20, Homeownership Education Certification, or another document (such as the CreditSmart – Steps to Homeownership certificate of completion) containing comparable information must be retained in the mortgage file. Landlord Education (2-4 unit primary residences) Purchase Transactions – At least one qualifying borrower must participate in a landlord education program before the Note Date. Landlord education must not be provided by an interested party to the transaction, the originating lender or the Seller (Freddie Seller/Servicer). • A copy of a certificate evidencing successful completion of the landlord education program must be retained in the mortgage file. Refinance Transactions – Landlord education is not required but is recommended for borrowers who have not previously attended a program. Post-purchase and Early Delinquency Counseling The Seller, as Servicer, must provide (at no cost to the borrower) Early Delinquency Counseling to all borrowers who experience problems meeting their mortgage obligations, in accordance with Sections 9101.2(c) and 9102.5(c). Home Possible – LSM overlays The following are not allowed for Home Possible or Home Possible Advantage programs: ARMs Temporary buydowns Manual underwriting Non-traditional credit, including non-traditional credit required to support an LPA decision

<table>
<tr><td></td><td>Custom MI
Construction conversion or renovation mortgages
Sweat equity
RHA leveraged seconds
Unsecured loans from originating lender used as a source of funds

<u>Home Possible Resources</u>
Home Possible Freddie Mac Web Page: http://www.freddiemac.com/homepossible

Home Possible Fact Sheet:
http://www.freddiemac.com/singlefamily/factsheets/sell/pdf/home_possible_97_572.pdf

Home Possible “At-A-Glance”: http://www.freddiemac.com/learn/pdfs/mp/hp_glance.pdf

Home Possible Income & Property Eligibility tool: http://www.freddiemac.com/homepossible/eligibility.html

Home Possible Exhibit 23: Monthly Budget and Residual Analysis Form (see AllRegs)

Home Possible Exhibit 20: Homeownership Education Certification (see AllRegs)

Freddie Mac CreditSmart webpage: http://www.freddiemac.com/creditsmart/</td></tr>
<tr><td>Home Possible Advantage (95.01 – 97.00%)</td><td>Refer to Freddie Mac Selling Guide Chapter 4501 for complete guidelines.

Home Possible Advantage Offering Identifier Code = 250
Must enter into Loan Product Advisor (LPA)

Home Possible Advantage mortgages are Home Possible mortgages with additional flexibility of higher loan-to-value (LTV) and total LTV (TLTV) ratio limits.

A Home Possible Advantage mortgage must be secured by a <u>1-unit primary residence</u> that is <u>not a manufactured home</u>.

<u>LTV/TLTV/HTLTV Ratios for Home Possible Advantage Mortgages</u>

<table>
<tr><td>Property Type</td><td>Maximum LTV</td><td>Maximum TLTV</td><td>Maximum HTLTV</td></tr>
<tr><td>1 unit</td><td>97%</td><td>105%</td><td>N/A*</td></tr>
<tr><td>Manufactured Home</td><td>Not allowed</td><td>Not allowed</td><td>Not allowed</td></tr>
</table>
* Secondary financing subordinated to a Home Possible Advantage Mortgage must be an Affordable Second. The Affordable Second financing cannot be a Home Equity Line of Credit (HELOC).

<u>Borrower Contribution</u>

<table>
<tr><td colspan="2">Minimum Contribution from Borrower Personal Funds</td></tr>
<tr><td>Property Type</td><td>Home Possible Advantage</td></tr>
<tr><td>1-unit</td><td>None</td></tr>
</table>

<u>Reserves</u>

<table>
<tr><td>Property</td><td>Home Possible</td></tr>
<tr><td>1-unit</td><td>None required</td></tr>
</table>
</td></tr>
<tr><td>Income</td><td><u>Income Stability and History</u>
For each income source used to qualify the borrower, the underwriter must determine that both the source and the amount of the income are stable.
Base Non-fluctuating Employment Earnings - Income types with pre-determined fixed payment amounts that occur with regular frequency and/or defined and documentable terms lend support to income stability and the analysis of historical receipt is typically not necessary
Fluctuating Employment Earnings - Income types that fluctuate typically must be viewed from the perspective of historical earnings. Fluctuating earnings are not considered “base” or “salaried” earnings
In most instances, a two-year history of receiving income is required.
Note: Fluctuating hourly earnings do not include additional employed income (e.g., bonus, overtime, tips)
<u>Continuance of Income</u>
For all income used to qualify the borrower, the underwriter must determine whether the income is reasonable expected to continue. Continuance of income is categorized as follows:</td></tr>
</table>

- Income and earnings types **typically without documentable continuance (likely to continue)**
  - Base non-fluctuating employment earnings, fluctuating hourly employment earnings, commission income, bonus income, overtime income, tip income, automobile allowance, military entitlements, military reserve or National Guard, unemployment (associated with seasonal employment), self-employment Income, royalty payments (two-year history), foster-care income, housing or parsonage allowance, rental income, tax-exempt income
- Income types **with documentable continuance**
  - Mortgage differential, notes receivable, royalty payments (one-year history), trust income (fixed payment), alimony, child support and/or separate maintenance, Homeownership Voucher Program (HOV), dividend and interest, capital gains, trust income (fluctuating payments), retirement account distributions as income.
- Income types that **may or may not have documentable continuance**, depending upon the source and terms of the specific income type
  - Retirement income, survivor and dependent benefits, long-term disability income, social security supplemental Security Income SSI), public assistance income.

Evaluated per LPA and Freddie Mac guidelines with the following restrictions:

- Stand-alone VOE (Verification of Employment) is ineligible. VOE must be accompanied by pay stub or pay stub and W-2
- At minimum a YTD paystub and W-2 is required

Self-Employed Borrower (5304.1(a))

A Borrower who has an ownership interest of 25% or more in a business is considered to be self-employed

- A borrower meeting this definition must be identified in LPA whenever the self-employment income and /or loss is used to determine the borrower's stable monthly income for qualifying. (5304.1(b)

Self-Employment History (5304.1(c))

A two-year history of current self-employment is required in most cases

For self-employment less than two years:

- Income may still be considered stable per underwriter's analysis justifying this determination
  - Document the borrower has a two-year history of receipt of income at the same or greater level in the same or similar occupation
  - Consider and evaluate the borrower's experience in the business
  - Consider and evaluate the acceptance of the company's products in the marketplace
  - Analysis of YTD financial statements and 3 months bank statements may provide support
- Minimum history of receipt of income
  - Borrower's federal income tax returns must reflect at least one year of self-employment income
- Geographical relocation
  - If the borrower is relocating to a different geographic area, prior to considering income, the underwriter must:
    - Consider and evaluate the acceptance of the company's service or products in the marketplace (e.g., market studies, industry research)
    - Provide a written analysis justifying the borrower's income will continue at the same level in the new location

Business and Income Analysis (5304.1(d))

Business review and analysis

- Business must show sufficient liquidity and be financially capable of producing stable monthly income for the borrower

Use of business income **reported** on the borrower's federal individual income tax returns

- Sole Proprietorships – use Schedule C
- Partnerships and S Corporations – use borrower's proportionate share of income (e.g., ordinary income, guaranteed payments) carried from Form 1065 or 1120S, through the Schedule K-1 and onto the borrower's federal individual income tax returns. **Cash distributions may not be used as qualifying income,** but may be used to establish business liquidity and access to business funds.
- S Corporations and corporations – use income reported on borrower's W-2 from the business. Corporate tax returns and Form 1125-E, if applicable, must confirm borrower's W-2 income.

Use of business income **not reported** on the borrower's federal individual income tax returns

- Income reported on business returns but not on personal returns may be considered stable, provided the underwriter's analysis confirms that based on the financial strength of the business the use of these funds as personal income would not have a detrimental effect on the business.

Access to business income

Documentation is not required to verify access to business income for:

	• Sole proprietorships
	• Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations
	• W-2 income received from S corporations and corporations
	• Corporations, if the borrower holds 100% ownership interest
	If business income not reported on borrower's individual tax returns is being used to qualify, and none of the above categories applies, the underwriter must verify borrower's legal right to income is not encumbered or restricted.
	
	Self-employment income not used for qualification (5304.1(e))
	If the borrower is self-employed and the self-employment is **not** considered for qualification purposes, the underwriter must obtain pages 1 and 2 of the borrower's federal income tax returns, and applicable schedules, to determine if there is a business loss that may have an impact on the stable monthly income.
	• **If a business loss is reported** and the borrower **qualifies** with the loss, then there is no need to obtain any additional documentation relating to the business loss.
	• **If a business loss is reported** and the borrower does **not** qualify with the loss, a business and income analysis must be performed. Additional documentation is needed.
	If the tax returns or other documentation in the mortgage file reflect **positive income** from self-employment but that income is **not used to qualify**, then additional income documentation is **not required**.
	
	Self-Employed Borrower – Existence of Business
	File must contain verification of current existence of business through third-party source dated no more than 120 days prior to the Note Date or after the Note Date but prior to the Delivery Date of the loan.
	
	Self-Employed Borrower – Tax Return(s) Requirement based on time in business
	If business in existence ≥ 5 years, provide personal and business tax returns for the most recent 1 year.
	If business in existence < 5 years, provide personal and business tax returns for the most recent 2 years.
	File must contain Form 91, *Income Analysis Form*, or equivalent.
	
	Self-Employed Borrower Documentation (5304.1(h))
	Stable monthly income must be established using at least the following required documentation:
	• Form 91, Income Analysis Form, or an alternative form that provides the same information
	• Verification of the current existence of the business
	• Federal income tax returns, including business returns where applicable, including all schedules and forms (which must reflect at least a minimum of 12 months of self-employment)
	• Verification of how long the business has been in existence
	  ○ For partnerships, S corporations and corporations, the federal income tax return(s) for the business must indicate the number of years that the business has been in existence.
	  ○ For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on Form 65/1003 URLA.
	
	Income from Second or Additional Job – Documentation
	• Documentation:
	  ○ YTD paystub(s) documenting all YTD earnings, W-2s for the most recent 2 calendar years, and a 10-day PCV
	• History:
	  ○ 2 year history for employment to be considered stable
	    ▪ Under certain circumstances it may be possible with less than 2 year history but greater than 12 months (5303.2(a)(ii)
	
	Income from Overtime – Documentation
	YTD paystub(s) documenting all YTD earnings and W-2s for the most recent 2 calendar years
	
	Income from Automobile Allowance – Documentation
	YTD paystub(s) documenting all YTD earnings and W-2s for the most recent 2 calendar years
	
	Trust Income – Documentation
	Historical fluctuating payments
	• Trust agreement outlining payment terms, complete tax returns for most recent 2 years
	Predetermined fixed payments
	• Trust agreement specifying fixed payments, document current receipt
	All trust income:
	• Evidence of sufficient assets to support income (e.g., letter from trustee, bank statements)
	
	Unemployment Income m- Documentation
	Must be associated with seasonal employment. Document receipt of unemployment income for the most recent 2

years with IRS Form 1099Gs or equivalent documentation.

Military Income – Documentation
YTD leave and Earnings Statement, W2 for the most recent calendar year, and a 10-day pre-closing verification (10-day PCV).

Pre-Closing Verification (PCV)
A 10-day pre-closing verification (10-day PCV) is required from each employer for which income is used to qualify. The 10-day PCV must be dated no more than 10 Business Days prior to the Note Date or after the Note Date but prior to the Delivery Date. Pre-Closing Verifications include:

- Verbal verification of employment (verbal VOE)
- Written VOE
- Military Leave and Earnings Statement
- Third-party employment verification service provider – electronically generated
    - Verification must evidence the information in the database is no more than 35 days old (5302.3)

Income Types or Employment Characteristics that require tax returns

- Commission income ≥ 25% of the income from the commissioned employment
- Tip income – Cash and charge tips reported on IRS Form 4137
- Income from employment by a family member, property seller, broker or other interested party to the transaction
- Employed income from a foreign source
- Income reported on IRS Form 1099
- Self-employed income
- Dividend and interest income
- Capital gains income
- Royalty payments
- Trust income
- Non-employment/Non-Self-Employment income form foreign source
- Tax-exempt income (optional)
- Rental Income

Unreimbursed Employee Business Expenses
These are **not** required to be deducted from the borrower's income unless the expenses are associated with commissions that are ≥ 25% of the income from the commissioned employment.

W-2 Forms: Alternative Documentation (5302.2(b))

- Year-end YTD Paystubs: The year-end YTD paystub(s) or military Leave and Earnings Statement (LES) may be used in lieu of the W-2 form(s) provided the documentation reflects the complete income earned in the previous calendar year OR
- W-2 Transcripts: The W-2 transcript(s) may be used in lieu of the W-2 form(s0 provided the transcript reflects the complete income earned in the previous calendar year

Employment Characteristics that **may** require Additional Documentation (5303.2(d))

- Full-time and part-time employment
- Seasonal employment
- Union members
- Borrower employed by a family member or interested party to the transaction
- Employed income from a foreign source
- Employment contracts (educational and other industries)
- Temporary help services (W-2 income from contract and/or temporary staffing firms)
- Income reported on IRS Form 1099 for services performed

Employment and Income Commencing after the Note Date (5303.1(e))
Requirements

- Primary employment, base non-fluctuating salaried earnings, not employed by family member or interested party to transaction
- Purchase, 1-unit Primary Residence
- Offer Letter or employment contract
- 10-day PCV

Additional Requirements

- Option One – Not required to obtain paystub for new employment
    - Note Date cannot occur more than 60 days prior to commencement of employment per offer

letter or contract, and
- Income or liquid assets must be documented to pay monthly housing expenses and other monthly liabilities between the note date and the employment start date, and
- Additional 6 months reserves must be documented

The table below contains history/continuance requirements for Additional Income.(5303.3).

Income Type	History / Continuance Requirement
Bonus	2 year consecutive history, likely to continue for the next 3 years
Commission	2 year consecutive history, likely to continue for the next 3 years
Overtime	2 year consecutive history, likely to continue for the next 3 years
Automobile Allowance	2 year consecutive history, likely to continue for the next 3 years
Tip Income	2 year consecutive history, likely to continue for the next 3 years
Unemployment Compensation associated with seasonal employment	2 year consecutive history, likely to continue for the next 3 years
Mortgage Differential	History is not required, likely to continue for the next 3 years
Military entitlements (e.g., flight, hazard duty, rations, clothing allowance or quarters allowance)	History is not required, likely to continue for the next 3 years
Military Reserve and National Guard Income	1 year history, likely to continue for the next 3 years

Specific requirements for other income types are located in **Freddie Mac 5305.2**. These include
- Notes receivable
- Dividend and interest
- Capital gains
- Royalty payments
- Trust Income
- Retirement income
- Retirement account distributions as income
- Survivor and dependent benefit income
- Long-term disability income
- Social Security Supplemental Security Income
- Public assistance income
- Home Ownership Voucher Program
- Foster-care income
- Alimony, child support or separate maintenance payments
- Housing or parsonage allowance
- Income from a foreign source
- Tax-exempt income

Income While on Temporary Leave (5303.5)
For Borrowers returning to their current employer prior to or on the first mortgage payment due date:
- Use the borrower's pre-leave gross monthly income

For Borrowers returning to their current employer after the first mortgage payment due date:
- Use the borrower's gross monthly income amount being received for the duration of the temporary leave
- In the event the come has been reduced or interrupted, use the monthly reduced income amount (this may be zero) combined with the borrower's available liquid assets, as necessary
- Total qualifying income must not exceed the borrower's pre-leave gross monthly income amount

Signed IRS Form 4506-T
Any borrower, whose income is used to qualify, must sign IRS Form 4506-T at both application and on the Note Date. If the signed IRS Form 4506-T from application is submitted to the IRS, and transcripts are received back from the IRS, the IRS Form 4506-T signed by the borrower on the Note Date is not required.

An IRS Form 4506-T must be processed prior to closing (LSM Overlay).

Verbal Verifications of Employment (5102.3)
When conducting verbal verifications of employment, the must verify the borrower's current employment status, and not whether the borrower is employed or on leave. (FHLMC Bulletin 2015-12, 5102.4)

Rental Income (see 5306.1 for complete details).
- See Freddie Mac Rental Income Matrix link below
- When rental income from investment properties owned by the borrower in the previous tax year is reported on the borrower's federal individual income tax returns, the Selling Guide indicates Schedule E

	of the borrower's tax returns is used to determine the net rental income. o Note: The net rental calculation is slightly different than the Fannie Mae net rental calculation o The Freddie Mac net rental is calculated as follows from Schedule E: ▪ Income minus expenses, then add back depreciation equals net rental o Positive net rental is added to gross income o Negative net rental is included as a liability • Signed leases may be used to determine the net rental income for an investment property not owned during the previous tax year. Assets as a basis for mortgage qualification (see 5307.1 for complete details) (aka "Asset Amortization") Assets as described below may be used to qualify the borrower for the mortgage so long as borrower is not currently using the assets as a source of income. • Mortgage Eligibility o 1- or 2-unit Primary Residence or a Second Home o Purchase, "No-cash-out" refinance, or LPA Open Access loan o Maximum loan-to-value (LTV/TLTV/HTLTV) of 80% • Calculation o Use 70% of the eligible assets, less any funds required to complete the transaction (e.g., down payment, closing costs), divided by 360 months, **regardless** of loan term or account balance, to qualify the borrower for the mortgage. • Eligible Assets o Retirement Assets o Lump-sum distribution funds derived from a retirement account but not deposited to an eligible retirement asset o Assets from the sale of the borrower's business
Internet Links	Loan Product Advisor Documentation Matrix: http://www.freddiemac.com/learn/pdfs/uw/docmatrix.pdf LPA Documentation Matrix – mandatory for settlement dates on or after July 6, 2017: http://www.freddiemac.com/learn/pdfs/uw/docmatrix_settlement_dates_july_6_2017.pdf Revisions to Income and Asset Qualification Requirements: http://www.freddiemac.com/learn/pdfs/uw/rev_inc_qual_req.pdf Freddie Mac Refinance Programs (August 2016): http://www.freddiemac.com/learn/pdfs/uw/refinance.pdf Freddie Mac Rental Income Matrix (March 2016): http://www.freddiemac.com/learn/pdfs/uw/rental.pdf Best Practices for Loans Involving Possible Property Flips (2009-24): http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bll0924xA.pdf Freddie Mac Fraud Prevention Best Practices (July 2016): http://www.freddiemac.com/singlefamily/pdf/fraudprevention_practices.pdf
Liabilities	The monthly debt payment is the sum of the monthly charges for the following liabilities (5401.2): • Monthly housing expense • Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance. If the credit report does not contain a required monthly payment, the monthly payment used must be based on documentation in the file. • Alimony, child support or maintenance payments with more than 10 months of payments remaining • Monthly payments on revolving or open-end accounts, regardless of the balance. In the absence of a monthly payment on the credit report or direct verification, 5% of the outstanding balance will be considered to be the required monthly payment. Monthly payments on open-end accounts (accounts which require the balance to be paid in full monthly) are not required to be included in the monthly debt payment if the borrower has sufficient verified funds to pay off the outstanding account balance. The funds must be in addition to any funds required for down payment, closing costs, financing costs, prepaids/escrows or reserves, as applicable. • Car lease payments, regardless of the number of payments remaining • Aggregate net rental loss from all investment properties owned • Monthly payment amounts for other properties, including principal and interest on the first lien and any secondary financing, taxes and insurance and, when applicable, mortgage insurance premiums, leasehold payments, homeowners association dues (excluding unit utility charges) When payments on an installment debt are not given on the credit report or are listed as deferred, the underwriter must obtain documentation to support the payment amount included in the monthly debt payment. Monthly Payments/ Installment Debt / Student Loans (5401.2)

	The credit report may show that an installment debt is in a period of deferment of forbearance. Examples of installment debts with deferred payments include: • Debts on furniture, household items and automobiles on which the initial payment is delayed for a period of time as part of a promotional campaign by the merchant • Student loans on which the repayment period has not yet started because the Borrower is still in school or payment has been suspended for a period of time with the approval of the creditor When a monthly payment on an installment debt is not reported on the credit report or is listed as deferred, the underwriter must obtain documentation verifying the monthly payment amount included in the monthly debt payment-to-income ratio. If no monthly payment is reported on a student loan that is deferred or is in forbearance, and **there is no documentation in the mortgage file indicating the proposed monthly payment amount** (e.g., loan verification letter, etc.), **1% of the outstanding balance** will be considered to be the monthly amount for qualifying purposes. Payments on installment debts secured by financial assets in which repayment may be obtained by liquidating the asset, may be excluded from the monthly debt payment-to-income ratio for qualifying purposes, regardless of the payment amount or number of payments remaining. The loan secured by the financial asset must have been made by a financial institution. The underwriter may only consider the assets in the account that exceed the loan balance to be available to the borrower as borrower funds. If the borrower pays off or pays down existing debts in order to qualify for the mortgage, the underwriter must document the payoff or pay down of the debts and the source of the funds used in the mortgage file. <u>Paying Off Revolving Debt to Qualify</u> If borrower is paying off revolving debt to qualify for the loan (i.e., monthly payment not included in DTI) the revolving account is <u>not</u> required to be closed. The source of funds used for payoff must be documented in the loan file. <u>Self-Employed Borrower's Debt Paid by Borrower's Business (5401.2(b)(ii))</u> When a self-employed borrower is obligated on a debt that has been paid by the borrower's business for 12 months or longer, the monthly payment for the debt may be excluded from the monthly debt payment-to-income ratio if the following requirements are met: • The mortgage file contains evidence that the debt has been paid timely by the borrower's business for no less than the most recent 12 months, and • The tax returns evidence that the business expenses associated with the debt (e.g., interest, lease payments, taxes, insurance) have been reported and support that the debt has been paid by the business. **<u>Conversion of Primary Residence to Second Home or Investment Property (Bulletin 2015-16)</u>** Former requirements for <u>additional reserves</u> and <u>rental income requirements</u> have been eliminated **<u>Pending Sale of Primary Residence (5401.2(a)7)</u>** If the borrower's current primary residence is pending sale and the sale will not close before the note date of the mortgage, the monthly payment amount can be excluded from the DTI ratio if the mortgage 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; **<u>OR</u>** • An executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage(s).
Limitations on Other Real Estate Owned	**<u>Multiple Loans by LSM to the Same Borrower</u>** • Maximum 20% concentration in any one project or subdivision • LSM will provide financing for up to 8 financed properties for one borrower, including the subject property, or a total of $2 million in financing for one borrower, whichever is less. **<u>Freddie Mac Financed Property Rules</u>** <u>Primary Residence</u> • Borrower may have an unlimited number of financed properties <u>Second Homes & Investment Properties (multiple financed properties) (4201.15 and 4201.16, Bulletin 2017-2)</u> • Requirement has been revised. When determining the total number of financed properties, do **<u>not</u>** consider financed properties that a borrower <u>owns, but is not obligated on</u>. Each borrower individually and all borrowers collectively must not **<u>be obligated on</u>** (e.g., notes, land contracts and/or any other debt or obligation) more than six (6) 1- to 4-unit financed properties, including the subject property and the borrower's primary residence. Examples of financed properties that do not have to be counted in this limitation include:

	○ Commercial real estate ○ Multifamily (five or more units) real estate ○ Timeshares ○ Undeveloped land ○ Manufactured homes not titled as real property (chattel lien), unless the property is situated on the land that is titled as real property ○ Property titled in the name of the borrower's business provided that the borrower, in his or her individual capacity, is not obligated on the property ○ Property titled in the name of a trust where the borrower is a trustee, provided that the borrower in his or her individual capacity, is not obligated on the property New multiple loans must be underwritten simultaneously
Loan Amount	Minimum Conforming Loan Amount: $75,000
Manufactured Home Property Requirements	Manufactured Homes are not eligible for super conforming loan amounts. 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. **See Freddie Mac Selling Guide *5703: Manufactured Homes* for additional information** The borrower must own the land on which the manufactured home is situated in fee simple. The manufactured home must be a one-unit dwelling unit that is legally classified as real property. Mortgages secured by manufactured homes located on leasehold estates are not eligible. The towing hitch, wheels, and axles must be removed The dwelling must assume the same characteristics of site-built housing The MFH must have sufficient square footage and room dimensions to be acceptable to purchasers in the subject market area The MFH must be at least 12 feet wide and have a minimum of 600 square feet of gross living area. The MFH must have been built in compliance with Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976 as amended and in force at the time the home is manufactured, and additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280 as evidenced by: • HUD Data Plate/Compliance Certificate – A paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. In addition to the data required by Fannie Mae, the data plate includes pertinent information about the unit including a list of factory-installed equipment; and • HUD Certification Label (sometimes referred to as a HUD "seal" or "tag") – A metal plate located on the exterior of each section of the home The appraisal form 1004C must indicate evidence of both the HUD Data Place/Compliance Certificate and the HUD Certification Label The MFH must be 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. The MFH must be permanently connected to a septic tank or sewage system per local and state requirements. The MFH must be permanently connected to all necessary utilities (water, electricity, gas service, etc.) If the property is not situated on a publicly dedicated and maintained street then it must be situated on a street that is community owned and maintained, or privately owned and maintained. There must be adequate vehicular access and there must be an adequate and legally enforceable agreement for vehicular access and maintenance. The MFH must not have been installed or occupied previously at any other location or site. The MFH must not have any additions or structural modifications to the original structure. For "no cash-out" refinance Construction Conversion Mortgages secured by manufactured homes, at least one borrower must have been on the title to the land for 12 months or more prior to the effective date of permanent financing. (4602.5) Special Legal/Closing Provisions • The mortgage loan must be secured by both the manufactured home and the land on which it is situated, and both the manufactured home and the land must be legally classified as real property under applicable state law. • The purchase, conveyance, and financing (or refinancing) of the land and the manufactured home must be evidenced and secured by a single valid and enforceable note and first lien mortgage, deed of trust or security deed that is recorded in the land records, in states where applicable state law clearly provides for such a single lien.

	• Loans in which there is a chattel lien on the home plus a real property lien on the land are unacceptable. • Evidence of surrender of certificate of title or that no certificate was issued. • Confirm property is legally classified as real property, on a permanent foundation, and owner owns both land and MFH • ALTA Endorsement 7, 7.1, or 7.2 or any other endorsement required for manufacture homes to be treated as real property • Deed of Trust (or other security instrument) must include a comprehensive description of the manufactured home and the land in the property description section or on a separate attached rider. The description must include the serial or VIN number for each unit/section; year, make, model, size, and any other information required by applicable law to definitively identify the manufactured home. • Affidavit of Affixture – Borrower and Lender must sign and notarize an affidavit acknowledging their mutual intent that the manufactured home be a permanent part of the real property securing the mortgage. Affidavit must be recorded simultaneously with security instrument and must be retained in the loan file. • If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations. • Limited Power of Attorney pertaining to title issues and any post-closing items must be signed with closing documents • **Note: Mortgages secured by manufactured homes in Certificate of Title states may not be registered with MERS (5703.7(c)3)** • Closing Protection Letter – Except for states where insured closing protection letters are not allowed under state law or regulations, the lender must obtain an insured closing protection letter for each mortgage that is secured by a manufactured home. • For a mortgage secured by a manufactured home, the mortgage file must include documentation evidencing that the manufactured home is legally classified as real property, the manufactured home is properly titled and the lien on the manufactured home is properly created, evidenced and perfected. • For new manufactured home the file must contain the manufacturer's invoice and MFH purchase agreement. File must contain evidence that MFH was installed in compliance with HUD codes (3401.24) Manufactured Housing on this program is subject to the following restrictions: • Primary and Second home only, no investment property • Multi-width property only – no single wide • No High Balance loans • **Fixed Rate only** • No Manufactured Homes in Condo Projects • MFH may not have been re-sited (Freddie Mac guideline 5703.3(b))) • No MFH on leased land • Built after June 15, 1976 as evidenced by HUD labels • Permanently affixed to foundation See *Mortgage Insurance* for coverage requirements particular to manufactured housing.
Mortgage Insurance	**Note: Many MI companies have restrictions (e.g., score ≥ 700) and additional conditions for loans with DTI > 45%. Be sure to confirm MI availability, if needed, before proceeding.** **When less than two (2) scores per borrower are used, the MI price may be substantially higher than normal. The pricing is based on the lowest credit score received. Confirm the pricing with an MI representative in the early stage of the loan transaction.** The following supersedes all other guidelines for > 80% LTV with MI availability • All loans must be submitted to LPA and receive Accept feedback • Reserve requirements by mortgage insurers shall prevail LSM's approved MI companies are as follows: • Arch MI • Essent Guaranty, Inc. • Genworth • MGIC • National MI • Radian • United Guaranty (UG) Eligible MI certificate are as follows: • Borrower Paid Mortgage Insurance (BPMI) paid monthly and must be ordered as non-refundable, constant renewal, deferred payment (initial premium is paid with the first monthly loan payment) • Borrower Paid Single Premium • Lender Paid Single Premium MI • Premiums for all lender-paid MI plans must be shown on the HUD as being paid to the MI

	company by Lender Include calculation and rate factor used to determine MI premium disclosed to the borrower on the initial loan application. Including the MI rate card with the factor identified to ensure the appropriate MI partner is chosen. Ineligible MI • Financed MI • Split Premium – upfront portion paid by borrower or seller of the property • Prepaid Mortgage Insurance • Custom mortgage insurance per LP • Reduced mortgage insurance coverage • Lender Paid Monthly • Lender Paid Annual • Borrower Paid Annual • Lender paid pool coverage (referred to as GSE pool insurance) • Investor paid pool coverage • Loans covered by recourse and/or indemnification agreements • Secondary market coverage agreements Coverage requirements for fixed rate > 20 years (except MFH) **Coverage** / **LTV** 12% / 80.01% - 85% 25% / 85.01% - 90% 30% / 90.01% - 95% Coverage requirements for fixed rate ≤ 20 years (except MFH) **Coverage** / **LTV** 6% / 80.01% - 85% 12% / 85.01% - 90% 25% / 90.01% - 95% Reduced MI coverage amounts provided by agency and AUS decisions are ineligible. A Mortgage secured by a Manufactured Home must have mortgage insurance coverage as follows (5703.3): **LTV Ratio** / **≤20-Year Loan Term** / **>20-Year Loan Term and ≤30-Year Loan Term** **Primary Residence** Greater than 80% up to 85% / 12% / 12% Greater than 85% up to 90% / 25% / 25% Greater than 90% / 30% / 30% **Second Home** Greater than 80% up to 85% / 12% / 12% NOTE: Certain states have a tax surcharge assessed for Mortgage Insurance. The states requiring the inclusion of a surcharge are as follows. • Florida • Kentucky • West Virginia Ensure the MI premium also includes the additional surcharge. **Some MI companies include the additional charge in the MI premium and others do not. Ensure you have identified which is the premium amount and which is the tax amount and for the MI monthly premium to be escrowed, ensure the total of the two is used for the monthly payment.**
Occupancy	Primary Residence <u>Second Home:</u> • Must be in such a location as to function reasonably as a second home. (i.e., remote in distance from the Borrower's Primary Residence) • Suitable for year-round occupancy • Available for the Borrower's exclusive use and enjoyment • Not subject to time sharing or other shared ownership arrangement • Not subject to rental pools or agreements • Not subject to management company control over occupancy

	Investment Properties
Prepayment Penalty	None
Program Restrictions	Community Land Trusts – Mortgage loans secured by a leasehold estate on property owned by a community land trust are **ineligible**. Property Assessed Clean Energy (PACE) – Mortgages secured by properties with an outstanding Property Assessed Clean Energy (PACE) or PACE-like obligation (e.g., Home Energy Renovation Opportunity (HERO) loan) are **ineligible**.

Property Types	Eligible property types
	• 1-4 units
	• Modular Pre-Cut/Panelized Housing
	• Manufactured Housing (see separate *Manufactured Home Property Requirements* section)
	• PUDs
	• Condominiums as follows:
	  ○ Streamlined Review (per Selling Guide 42.4: *Streamlined reviews*)
	  ○ FNMA approved projects, including1028/PERS or CPM (Condominium Project Manager) project acceptance certification (per Selling Guide 42.9*: Reciprocal project reviews)*
	• **CPM Expedited Full Review for Condominiums –LSM allows Fannie Mae's Condo Project Manager (CPM) expedited full review approvals for use on this Freddie Mac loan program. See your Account Executive for details.**
	
	Established Project – A project that meets all of the following:
	• At least 90% of the total units in the project have been conveyed to the unit purchasers;
	• The project is 100% complete, including all units and common elements;
	• The project is not subject to additional phasing or annexation; and
	• Control of the homeowners' association has been turned over to the unit owners.
	
	Streamlined Review for Attached Units in Established Condominium Projects **NOT** located in Florida:
	Streamlined Review eligibility criteria for attached units differ depending upon the occupancy type and LTV/CLTV/HCLTV ratios, as follows (5701.4):
	• Principal residence – Maximum LTV/TLTV/HTLTV ≤ 90%
	• Second home – Maximum LTV/TLTV/HTLTV ≤ 75%
	• Investment property – Not allowed
	
	Streamlined Review for Attached Units in Established Condominium Projects located in Florida:
	Streamlined Review eligibility criteria for attached units differ depending upon the occupancy type and LTV/CLTV/HCLTV ratios, as follows (5701.4):
	• Principal residence – Maximum LTV/TLTV/HTLTV ≤ 75%
	• Second home – Maximum LTV/TLTV/HTLTV ≤ 70%
	• Investment property – Not allowed
	
	Streamline reviews are acceptable for condominium projects that consist of a mix of attached and detached units (See 5701.4).
	
	Limitations on CPM approval for Florida Projects:
	For those mortgages approved through CPM and that are secured by Condominium Units located in attached Established Condominium Projects in Florida, the following limitations apply:
	• Primary Residence – Maximum LTV/TLTV/HTLTV ≤ 75%
	• Second home – Maximum LTV/TLTV
	• Investment property – Not allowed
	• Mortgages secured by attached Condominium Units in New Condominium Projects in Florida are only allowed if the project is approved through PERS.
	
	Excessive commercial or non-residential space in condominium projects (5701.3)
	Commercial or non-residential space in a project may not exceed 25% of the total above and below grade square footage of the project (or more than 25% of the total above and below grade square footage of the building in which the project is located). (See 5701.11 for calculation)
	
	Projects with excessive single investor concentration (5701.3)
	Any project in which an individual or a single entity such as an investor group, partnership or corporation owns more than the following total number of units in the project:
	
	Number of units in the project | **Total number of units owned by individual or single entity**

<table>
<tr><td></td><td>
<table>
<tr><td>Two to four</td><td>One</td></tr>
<tr><td>Five to 20</td><td>Two</td></tr>
<tr><td>21 or more</td><td>10%</td></tr>
</table>
Vacant units being actively marketed by the developer are not included in the calculation of the developer's percentage of ownership. Any units leased by the developer must be included in the calculation of the developer's percentage of ownership

<u>Project in litigation (5701.3)</u>
A project in which: (1) the HOA is named as a party to pending litigation, or (2) the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, functional use or habitability of the project.
If the underwriter determines that the reason for the pending litigation involves minor matters that do not affect the safety, structural soundness, functional use or habitability of the project, the project is eligible as long as the litigation is limited to one of the following:

The litigation amount is known, the insurance company has committed to provide the defense and the litigation amount is covered by the insurance policy
The matters involve non-monetary neighbor disputes or rights of quiet enjoyment, or
The HOA is a plaintiff in the litigation and the matter is minor with insignificant impact to the financial status of the project.

The underwriter must retain documentation to support its analysis that the reason for the dispute meets Freddie Mac's requirements for minor matters described above.

<u>Delinquent Assessments for New and Established Condominium Projects (5701.6(e), 5701.5(e))</u>
No more than 15% of the total number of units in a project may be 60 or more days delinquent on the payment of their HOA assessments.

<u>Condo project identification (5701.12)</u>
Lenders are encouraged to obtain the Taxpayer identification Number(s) (TIN(s)) for the HOA and retain this information as part of the project review documentation.

<u>Condominium Project Insurance for Streamlined Reviews (Bulletin 2016-6)</u>
There is no longer a requirement to determine the existence or adequacy of:

Fidelity or employee dishonesty insurance coverage
Liability insurance for projects reviewed under the streamlined review project type

Ineligible

Condo Hotels
Co-ops
Leasehold Estates
2-4 unit properties in PUDs
Properties encumbered with private transfer fee covenants (per Regulation 12 C.F.R. Part 1228)
Properties with greater than 25 acres
Uniquely designed properties such as dome homes, log cabins, earth berms, and underground homes

</td></tr>
<tr><td>Qualifying Rate & Ratios</td><td>
Fixed Rate Qualifying Rate
Qualify at note rate
Ratios
LPA Accept – Ratios evaluated by LPA

Note: Mortgage insurance (MI) companies may prohibit DTI > 45% and/or require additional conditions (e.g., score ≥ 700). Be sure to confirm MI availability, if needed, before proceeding.
</td></tr>
<tr><td>Reserves</td><td>
<u>Reserves</u>
Note: The limitation that no more than 70% of the value of a retirement account can be used for reserves has been removed. (5501.3(b))

Reserves include <u>minimum required reserves for the subject property</u> plus <u>additional required reserves</u>, if applicable. Minimum required reserves for the subject property are those indicated on the LPA Feedback Certificate.

<u>Calculation of Reserves</u>
Underwriter must verify all reserves required by Loan Product Advisor, as stated on the Feedback Certificate, except as stated below for mortgages secured by second homes and investment properties.
<u>Reserves (5501.2)</u>
</td></tr>
</table>

	Reserves must be based on the full monthly payment amount for the property, not only principal, interest, taxes and insurance (PITI). The monthly payment amount is defined as the sum of the following monthly charges:
	• Principal and interest payments on the mortgage
	• Property hazard insurance premiums
	• Real estate taxes
	• When applicable:
	  ○ Mortgage insurance premiums
	  ○ Leasehold payments
	  ○ Homeowners association dues (excluding unit utility charges)
	  ○ Payments on secondary financing
	When calculating reserves for the subject property, the principal and interest payment must be based, at a minimum, on the note rate. When calculating reserves for other properties, the monthly payment amount for the property must be no less than the current monthly payment amount.
	
	Additional Required Reserves
	The following mortgages require reserves in addition to the required reserves above:
	<table><tr><th>Subject Property</th><th>Additional required reserves*</th></tr><tr><td>Second Home or Investment Property</td><td>• Two months of the monthly payment amount (5501.2(a)) on each additional second home and/or 1- to 4-unit investment property that is financed and on which the borrower is obligated</td></tr></table>*The underwriter must manually calculate and verify the additional required reserves stated above in addition to the amount of reserves required to be verified on the Feedback Certificate.
	
	Example: A mortgage is secured by an investment property and the Feedback Certificate requires $5,000 verified in reserves. The borrower owns and is obligated on a financed second home with a current monthly payment amount of $1,500. As a result the underwriter must verify $3,000 (two months of the monthly payment amount on the second home) in addition to the $5,000 required by the Feedback Certificate. A total of $8,000 in reserves must be verified.
	
	Conversion of Primary Residence to Second Home or Investment Property (Bulletin 2015-16)
	Former requirements for additional reserves and rental income requirements have been eliminated
	
	Ineligible Reserves
	In connection with cash-out refinance mortgages, the cash proceeds from the subject property refinance transaction may **not** be counted as reserves.
	
	Mortgage insurers reserve eligibility requirements may be greater than those listed above.

Secondary Financing	Secondary financing is eligible and requirements are as follows. <table><tr><th>Refi includes 1st lien payoff</th><th>Underwrite transaction as</th><th>Comments</th></tr><tr><td>Payoff of purchase money 2nd no cash out</td><td>Limited cash-out refi</td><td>N/A</td></tr><tr><td>Payoff of non-purchase money 2nd, regardless of cash out being taken</td><td>Cash-out refinance</td><td>N/A.</td></tr><tr><td>Payoff of 1st lien seasoned a minimum of 6 months, with subordinate financing being resubordinated and left in place, regardless if the subordinate financing was used to purchase the property and the cash out does not exceed the limited cash-out refi transaction</td><td>Limited cash-out refinance</td><td>• Subordinate financing must be factored into risk assessment based on TLTV, HTLTV, and DTI ratio. • Subordinate lien must be resubordinated.</td></tr><tr><td>Refinance of a cash-out a transaction within the last 6 months</td><td>Cash-out-transaction</td><td>N/A</td></tr></table>A copy of the following documentation is required in the loan file for the secondary financing as follows. • Note • Security Instrument • Final Truth-in-Lending Disclosure Statement • Good Faith Estimate • HUD-1 Settlement Statement or other closing statement • For HELOCs, the HELOC Agreement indicating all fees and costs paid by the Borrower at closing and the maximum permitted credit advance.

	NOTE: Subordinate financing left in place will not affect the type of refinance transaction used. Affordable seconds are ineligible. Down Payment Assistance Program (DPA) ineligible
Special Feature Codes	Refer to the LPA Feedback Certificate to identify the applicable Special Feature code number(s).
Temporary Buydown	Ineligible
Underwriting	All loans must be submitted and evaluated by Loan Product Advisor with a risk class of Accept (with a documentation level of Streamlined Accept or Standard Documentation). **Super conforming mortgages with loan amounts greater than $1,000,000 are not eligible.** Verification of Funds for 30-Day Charge Accounts (aka Open-End Accounts) (37.16) Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. Underwriter must document that the borrower has sufficient funds to cover the unpaid balance of all 30-day charge accounts over and above funds required for the subject loan, including reserves. Alternatively, in the absence of a stated payment on the credit report or direct verification, 5% of the outstanding balance will be considered to be the required monthly payment. Property Flipping When the Seller of the property has been on title less than 90 days extra diligence must be taken with the transaction. Underwriter in its sole discretion reserves the right to condition for additional information and collateral support to include desk review, field review, or additional appraisal in order to support value. There is not a specific requirement. Rent Loss Insurance requirements eliminated(2014-6 & 22.22.1) • Primary 2-4 unit (2014-6) - The former requirement that the borrower maintain six months' rent loss insurance for a 2- to 4-unit Primary Residence when rental income is used in qualifying has been eliminated. ○ Note: If the subject property is a 2- to 4-unit Primary Residence, then Paragraph D (Rent Loss Coverage) must be deleted from the 1-4 Family Rider, Form 3170. • Investment 1-4 unit (2015-12) – The former requirement that borrower must have rent loss insurance on an investment property for at least six months of gross monthly rent whenever rental income is used for qualifying has been eliminated. Resale Restrictions (4201.17) Mortgages secured by properties subject to resale restrictions including, but not limited to, income-based restrictions (also referred to as inclusionary zoning) and age-based restrictions (such as senior housing), if the Freddie Mac requirements (Section 22.23) are met and the restrictions are in compliance with all federal, state and local laws, rules and regulations. Note: Properties with resale restrictions must have an appraisal that includes at least three comparable sales with similar resale restrictions. Investment Property • Gift funds or grants may not be used as borrower funds • Freddie Mac Rule: If a borrower will own more than 1 financed investment property at the end of the subject transaction, then the subject mortgage must be a fixed rate mortgage (4201.16) Landlord Experience Requirement Removed (2015-12) Freddie Mac no longer requires a two-year history of managing investment properties to use the income from a subject investment property or other investment properties owned by the borrower for qualifying purposes. Non-Arm's Length Transaction Prohibition • For new construction second homes or new construction investment properties the borrower may NOT be affiliated with or related to the builder, developer or property seller. Inspection Documents Underwriter may request a copy of any inspection where repairs or remediation (monetary or other) are specified in a purchase contract, regardless of whether repairs have been completed. Ineligible • Manual underwriting