# Fannie Mae Fixed Rate

**NOTE: Use of 2018 loan limits requires DU Approve/Eligible AUS recommendation. No exceptions.**
*This matrix is intended as an aid to help determine whether a property/loan qualifies for certain Fannie Mae offered programs. It is not intended as a replacement for Fannie Mae guidelines. Users are expected to know and comply with Fannie Mae's requirements.*

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

### Program Qualifications

- Eligible loans are conforming and high balance loans receiving a DU Approve/Eligible.

### 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 High Balance Loan Amounts (for High Cost Areas) | | | |
|---|---|---|---|---|
| | **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 | $1,051,815 | $1,577,800 |
| 4 | $871,451 | $1,307,175 | $1,307,115 | $1,960,750 |

Permanent High Cost area limits are 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

### Eligibility Matrix Loan Amount & LTV Limitations

- *Any references to LTV ratios include LTV, CLTV, and HCLTV ratios, unless otherwise noted.*
- *The Matrices may not include all eligibility criteria applicable to the subject transaction (e.g., maximum loan term).*
    - *Use Matrix 1 for Standard Eligibility Requirements for Conforming and High Balance Loan Amounts* ***Fannie Mae DU Approve/Eligible***
    - ***NOTE:*** ***If the borrower is financing a second home or investment property and the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720***
    - *Refer to LSM's Fannie Mae Conforming Manufactured Home Fixed Rate matrix for specific program guidelines on Manufactured Homes*

**Matrix 1**

*Standard Eligibility Requirements Conforming and High Balance Loan Amounts Fannie Mae DU Approve/Eligible Only*

Primary Residence, Second Home and Investment

| **Transaction Type** [1, 2,3] | **Occupancy** | **Units** | **Amortization and Property Restrictions** | **Maximum LTV/CLTV/HCLTV** [2,4] | **Credit Score**[8] | **Maximum Cash-Back** |
|---|---|---|---|---|---|---|
| Purchase & Limited Cash-Out Refinance (LCOR) | Primary Residence | 1 [3] | Fully amortizing | 95/95/95%<br>97/97/97%[6,7] | 620 | Ineligible |
| | | 2 | Fully amortizing | 85/85/85% | 620 | Ineligible |
| | | 3 – 4 | Fully amortizing | 75/75/75% | 620 | Ineligible |
| | Second Home | 1 [3] | Fully amortizing | 90/90/90% | 620<br>(720[8]) | Ineligible |
| | Investment | 1 [3] | Purchase – Fully amortizing | 85/85/85% | 620<br>(720[8]) | Ineligible |
| | | | LCOR – Fully amortizing | 75/75/75% | 620<br>(720[8]) | Ineligible |
| | | 2 – 4 | Fully amortizing | 75/75/75% | 620<br>(720[8]) | Ineligible |
| Cash-Out Refinance [5] | Primary Residence | 1 [3,5] | Fully amortizing | 80/80/80% | 620 | No limit |
| | | 2 – 4 [5] | Fully amortizing | 75/75/75% | 620 | No limit |
| | Second Home | 1 [3,5] | Fully amortizing | 75/75/75% | 620<br>(720[8]) | No limit |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Investment | 1[3,5] | Fully amortizing | 75/75/75% | 620<br>(720[8]) | No limit |
| | | 2 – 4[5] | Fully amortizing | 70/70/70% | 620<br>(720[8]) | No limit |

**Footnotes**

1. Borrower with one credit score or borrower without a credit score when borrowing with a scored borrower eligible on primary residence Purchase, Rate & Term 1 unit maximum 95% LTV minimum credit score 620. Refer to *Credit* for specifics. Conforming Limits only. Does not apply to High Balance loans.
2. See sections for *Assets* and *Underwriting* for multiple financed properties requirements
3. Florida condominiums are eligible per FNMA guidelines (see *Property Types*)
4. HCLTV (HELOC CLTV) = first lien balance + total HELOC amount (funded plus unfunded portion) ÷ the lesser of the appraised value or sales price (if applicable).
5. If the property was purchased within the prior six months, the borrower is ineligible for a cash-out refinance transaction unless the loan meets the delayed financing exception. Refer to the *Financing Types - Delayed Financing Exception* for eligibility requirements.
6. LSM offers both FNMA Standard 97% LTV option as well as HomeReady program option.
    a. See ***97% LTV Options*** in ***Eligibility Requirements*** for **Standard** eligibility requirements
    **b.** See ***HomeReady ≤ 95%*** and ***HomeReady 95.01% to 97%*** in ***Eligibility Requirements*** for **HomeReady** programs
7. LTV, CLTV, and HCLTV Ratios Greater than 95%: These transactions are **not** permitted for high-balance loans or loans with a non-occupant borrower.
8. ***If the borrower is financing a second home or investment property and the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720. All other standard eligibility policies apply.***

**Product Description**

- Fixed Rate 10, 15, 20, 25 and 30 years
- Fully Amortizing
- HomeReady Program – See HomeReady sections in *Eligibility Requirements*

**Product Codes**

**Conforming Loan Amounts**

| Description | Product Code |
|---|---|
| Fannie Mae 10 YR Fixed | 110 |
| Fannie Mae 15 YR Fixed | 115 |
| Fannie Mae 20 YR Fixed | 120 |
| Fannie Mae 25 YR Fixed | 125 |
| Fannie Mae 30 YR Fixed | 101 |

**HomeReady Program Codes**

| Description | Product Code |
|---|---|
| HomeReady 10 YR Fixed | R110 |
| HomeReady 15 YR Fixed | R115 |
| HomeReady 20 YR Fixed | R120 |
| HomeReady 25 YR Fixed | R125 |
| HomeReady 30 YR Fixed | R101 |

**High Balance Loan Amounts**

| Description | Product Code |
|---|---|
| Fannie Mae HB 15YR Fixed | 115HB |
| Fannie Mae HB 30YR Fixed | 101HB |
| | **HomeReady Program Codes** |
| HomeReady HB 15 YR Fixed | RH115 |
| HomeReady HB 30 YR Fixed | RH101 |

**Eligibility Requirements**

| | |
|---|---|
| **97% LTV Options (Standard FNMA, not HomeReady)** | LTV, CLTV, and HCLTV Ratios Greater than 95%: These transactions are **not** permitted for high-balance loans or loans with a non-occupant borrower. At least one borrower on the loan must have a credit score. (FNMA Eligibility Matrix)<br><br>For First-Time Home Buyers and Limited Cash-Out Refinance of Fannie Mae Loans (FNMA SEL-2014-15)<br><br>Key Features (apply to all options)<br>Desktop Underwriter (DU) underwriting required<br>1-unit principal residence (including condos and PUDs; manufactured housing is not eligible)<br>Fixed-rate mortgage with maximum term of 30 years<br>High-Balance Loans are not permitted<br>Reserves (if required by DU) may be gifted<br><br>Purchase Option for First-Time Home Buyers – Non-HomeReady<br>First-time home buyer requirement – At least 1 borrower must be a first-time home buyer<br>• Definition – At least one buyer must not have owned any residential property in the past three years. In |

addition, an individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period. See FNMA Selling Guide for further information.

Income Limits – No limit
Minimum MI coverage – Not offered by LSM. Loan must have standard MI coverage (35%).
Pre-purchase home-buyer education and counseling – Not required
Post-purchase delinquency counseling – Not required

LTV/CLTV/HCLTV Ratios

- LTV – 95.01 to 97%
- CLTV – 95.01 to 97% if the subordinate lien is not a Community Seconds loan; 105% if the subordinate lien is a Community Seconds loan (approved by LSM )
- HCLTV – 95.01 to 97%

Refinance Option (Limited Cash-Out) for an Existing Fannie Mae Loan
The underwriter must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from the lender's servicing system, the current servicer (if the lender is not the servicer), from Fannie Mae's Loan Lookup Tool (https://knowyouroptions.com/loanlookup ) or any other source as confirmed by the underwriter.

NOTE: Underwriters must inform DU that Fannie Mae owns the existing mortgage by indicating "Fannie Mae" in the Owner of Existing Mortgage field on the online loan application. In the Desktop Originator® (DO®)/DU User Interface, this field is located on the Additional Data screen in the Full 1003. Because this indication will be used by DU to determine eligibility of the loan for delivery to Fannie Mae when the LTV, CLTV, or HCLTV exceed 95%; the underwriter will be required to document the loan being refinanced is currently owned by Fannie Mae.

All other standard limited cash-out refinance policies apply.

**Appraisal Requirements**

Standard appraisal requirements apply, plus:

- One-Unit Residential Appraisal Field Review Report (Form 2000) or a Two- to Four-Unit Residential Appraisal Field Review Report (Form 2000A), is required if:
    - The property is valued at $1,000,000 or more **and** the LTV, CLTV, or HCLTV ratio is greater than 75% (FNMA B5-1-01)
- Form 1007 is required whenever rental income is used to qualify the borrower

**Property Condition – Properties with a Condition Rating of C5 or C6 are not eligible.**

Property Inspection Waiver is eligible per DU recommendation and FNMA guidelines.
**See *Property Inspection Waiver* section for requirements and limitations.**

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.

Accessory Units (see *B4-1.3-05*)
An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property. See FNMA Selling Guide for additional requirements.

Additions without Permits
If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

Mixed-Use Properties (See *B2-3-04, B4-1.4-07)*)
Properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office are eligible per the following:

- Property must be a one-unit dwelling that the borrower occupies as a principal residence
- The borrower must be both the owner and the operator of the business
- The property must be primarily residential in nature
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

The appraisal for a mixed use property must:

| | |
|---|---|
| | • Provide a detailed description of the mixed-use characteristics of the subject property;<br>• Indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;<br>• Report any adverse impact on marketability and market resistance tot eh commercial use of the property; and<br>• Report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.<br><br>Comparables in New Projects or Subdivisions (SEL 2017-01)(B4-1.3-08)<br>At least one closed sale is required from the subject subdivision or project. In the event closed sales are not yet available, FNMA will accept two pending sales in lieu of a closed sale. When this flexibility is used, the appraiser must also provide at least three closed comparable sales from outside the subject subdivision or project.<br><br>Property Inspection by Appraiser Trainee - Clarification (SEL 2017-01)(B4-1.1-03)<br>When the unlicensed or uncertified appraiser or appraiser trainee completes the property inspection, the supervisory appraiser is not required to also inspect the property.<br><br>Adjustments to Appraisal for Sales Concessions - Clarification (SEL 2017-01)(B4-1.3-09)<br>Appraisers may use dollar for dollar adjustments for financing or sales concessions when such an adjustment approximates the local market's response to these types of concessions.<br><br>Site Condos (SEL 2017-01)(B4-2.1-01)<br>Site condos are a type of detached condo. Site condos do not require a project review.<br>Special Feature Code (SFC) 917 is used to identify a site condo. |
| **Assets** | Evaluated per DU and Fannie Mae guidelines with the following restrictions<br>• 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 woulb be found in an original hard copy of the document.<br>Stocks, Bonds, and Mutual Funds (SEL-2015-07, B3-4.3-01)<br>Fannie Mae is updating the policies related to the use of vested stocks, bonds, and mutual funds (including retirement accounts) when they are used for down payment, closing costs, and reserves. Instead of requiring a standard reduction in value, the policies have been simplified as follows:<br>• One hundred percent (100%) of the value of the asset is allowed when determining available reserves.<br>• If the underwriter documents that the value of the asset is at least 20% more than the funds needed for the borrower's down payment and closing costs, no documentation of liquidation is required. Otherwise, documentation of the borrower's actual receipt of funds realized from the sale or liquidation must be obtained.<br>Note: Non-vested assets are not eligible for down payment, closing costs, or reserves.<br><br>Bank statements used to verify assets (B3-4,2-01 and SEL 2015-06)<br>When bank statements are used to verify assets, the bank statements must show account activity for a full two month period. It is not acceptable to use one monthly bank statement and compare the prior month ending balance and the current month ending balance. A full two months of account activity must be reviewed.<br><br>Depository Accounts<br>Funds held in a checking, savings, money market, certificate of deposit, or other depository account may be used for the down payment, closing costs, and financial reserves. Any indications of borrowed funds must be investigated. Unverified funds are not acceptable for the down payment, closing costs, or financial reserves.<br><br>Asset Account Numbers (SEL 2017-04)<br>Truncated or masked account numbers for bank and portfolio or investment accounts where at least the last four digits of the borrower's asset account are displayed are permissible on the loan application, in DU, and on asset documentation, including verification reports obtained through the DU validation service.<br><br>Third Party Asset Verification (B3-4.2-01)<br>Direct verification by a third-party asset verification vendor may be used to document that a borrower has sufficient funds for closing, down payment, and/or financial reserves. These verifications are acceptable as long as:<br>• The borrower provided proper authorizations for the underwriter to use the verification method, the verified information provided must conform with the information that would be provided on Form 1006, Form 1006(s), or on bank statements,<br>• The date of the completed verification is in compliance with FNMA Selling Guide B1-1-03 *Allowable Age of Credit Documents and Federal Income Tax Returns,*<br>• The underwriterhas determined that the vendor maintains reasonable practices that ensure reliable and authorized verifications of deposit and asset information (FNMA A1-1-01), and the underwriter understands it will be held accountable for the integrity of the information obtained from this source.<br><br>Business Assets |

Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves when a borrower is self-employed and the individual federal income tax returns have been evaluated by the underwriter, including, if applicable, the business federal income tax returns for that particular business (non-Schedule C). The borrower must be listed as an owner of the account and the account must be verified in accordance with FNMA Selling Guide (B3-4.2-01 *Verification of Deposits and Assets*). The underwriter must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. (See B3-3.2 *Self-Employment Income* for additional information on analysis of a self-employed borrower.)

Bank Statements and Large Deposits (B3-4.2-02)

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

| Transaction Type | Evaluation Requirements |
|---|---|
| Refinance transactions | Documentation or explanation for large deposits is **not** required [by FNMA]; however, the underwriter remains responsible for ensuring that any borrowed funds, including any related liability, are considered. |
| Purchase transactions | If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the underwriter must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of ta deposit. In those instances, the underwriter must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The underwriter must place in the loan file written documentation of the rationale for using the funds.<br>Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the underwriter must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the underwriter uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes (whether the mortgage loan is underwritten manually or through DU). **Note**: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit. |

**Note**: If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, there is no need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed the underwriter reserves the right to obtain additional documentation.

Sales Proceeds Needed for Down Payment and Closing Costs (B3-4.3-10)

If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, the underwriter must verify the source of funds by obtaining a copy of the final Settlement Statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home.

Like-Kind Exchanges

Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

Cash Value of Life Insurance (B3-4.3-19)

If an insurance company payout is used for the down payment or closing costs, underwriters must document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. It the cash-value of the life insurance is being used for reserves, the cash-value must be documented but does not need to be liquidated and received by the borrower.

Borrower Investment

- 80% or less LTV, CLTV, or HCLTV on 1-4 unit principal residence or second home:
  - A minimum borrower contribution from the borrower's own funds is not required. All funds

needed to complete the transaction can come from a gift.

- Greater than 80% LTV, CLTV, or HCLTV on 1-unit principal residence:
  - A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift. **Be sure to check mortgage insurance guidelines which may include additional requirements such as minimum score and maximum debt-to-income (DTI) ratios.**
- Greater than 80% LTV, CLTV, or HCLTV on 2-4 unit principal residence and second home:
  - The borrower must make a 5% minimum borrower contribution from his or her own funds. (If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence. **Be sure to check mortgage insurance guidelines.**) After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves
- Investment property loans require entire down payment from borrower's own funds, gift ineligible.

Seller / Interested Party Contributions (IPCs): Basis for the limit is LTV/CLTV ratio as follows:

- Primary Residence and Second Homes
  - 3% for LTV/CLTV > 90%
  - 6% for LTV/CLTV > 75% ≤ 90%
  - 9% for LTV/CLTV ≤ 75%
- Investment Properties
  - 2% at all LTV/CLTVs

Gifts

- Primary Residence and Second Homes
  - Eligible provided the required Borrower investment is met
  - Waive Borrower investment when gift funds reduce the LTV/CLTV to 80% or less
- Investment Properties
  - Gift ineligible

Reserves

- Additional reserves may be required by DU based on risk
- Cash-Out Refis – The cash proceeds from a cash-out refinance transaction on the subject property may not be used to meet the reserve requirement. (Cash proceeds from a cash-out refinance of another property that is not the subject property are an acceptable source of reserves.)(B3-4.1-01)

Primary Residence

- 1 – 4 units – Per DU
- Note: DU now requires a minimum of 6 months reserves for 2-4 unit principal residence transactions.

Second Homes (all transaction types)

- Per DU, typically 2 months PITIA

Investment Properties (all transaction types)

- Per DU, typically 6 months PITIA

Calculation of Reserves for Multiple Financed Properties (B3-4.1-01) (DU Version 10.0)
If the borrower owns other financed properties, additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:

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

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

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

**Note**: DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the online loan application.

See Fannie Mae Selling Guide for additional information (B3-4.1-01 Minimum Reserve Requirements, B2-2-03, Multiple Financed Properties for the Same Borrower)

Refer to Section *Limitations on Other Real Estate Owned* for additional reserve requirements.
**Mortgage insurers reserve eligibility requirements may supersede those listed above.**

| | |
|---|---|
| **Assumptions** | **Ineligible** |
| **Borrower Eligibility** | Eligible<br>• US Citizen<br>• Permanent resident alien<br>• Non-permanent resident alien (maximum 80% LTV/CLTV/HCLTV on 1-unit primary residence only; other restrictions apply)<br>• Inter Vivos Revocable Trust (FNMA B2-2-05)<br>    • Note: A Power of Attorney is not allowed on properties held in a trust<br>    • When a loan is made to an inter vivos trust that is secured by a property other than an investment property that fits within the "business purpose" definition for an exempt loan under TILA, it will be treated as an ATR Covered loan (i.e., Points and Fees limitations apply)<br>Ineligible<br>• Foreign Nationals |
| **Co-borrowers** | DU Approve/Eligible<br>• Ratios determined by DU<br>• Non-occupant borrower eligible per DU (See restriction below)<br><br>*Restriction: Non-occupant borrower is not allowed on loans where any borrower has only one score or no score, or on a primary residence refinance loan where the borrower is exercising the delayed financing exception.*<br><br>Non-occupant borrowers are not allowed on loans with LTV/CLTV/HCLTV > 95% |
| **Credit** | DU Approve/Eligible findings only<br>• Refer to *Loan Amount and LTV Limitations* for minimum credit score requirements<br>• Housing (Mortgage/Rental) Payment History (PITIA) is inclusive of all liens regardless of position, as well as all occupancy types.<br>    • Mortgage history evaluated by DU<br>    • Mortgage/Rental Delinquencies – Loans are ineligible with one or more mortgage/rental delinquencies of 60, 90, 120, 150 days or greater reported within 12 months of the date of the credit report.<br>    • See *Liabilities* for the handling of Timeshare Accounts<br><br><u>Changes to the Reporting of Civil Judgments and Tax Liens on Credit Reports (LL 2017-02)</u><br>The three nationwide consumer credit reporting agencies (CRAs) – Equifax, Experian, and TransUnion – plan to implement a public record data standard effective in July 2017 that will impact the types of delinquent credit identified on credit reports. In particular this will affect the reporting of civil judgments and tax liens.<br><br>Underwriters may continue to rely on the DU risk assessment and recommendation. Existing FNMA policy requires delinquent credit, including judgments and liens, to be paid off at or prior to closing.<br><br>Underwriters are not required to use sources to identify potential civil judgments and tax liens other than the loan application, credit report, and preliminary title report. Underwriters must assess information if the underwriter is otherwise made aware of outstanding judgments and liens prior to closing. (Note – LSM has access to services that may provide this information)<br><br><u>Allowable Age of Credit Documents</u><br>Credit documents include credit reports and employment, income, and asset documentation. For all mortgage loans (existing and new construction), the credit documents must be no more than four months old on the note date (B1-1-03). When consecutive documents are in the loan file, the most recent document is used to determine the age. For example, when two consecutive monthly bank statements are used to verify a depository account, the most recent bank statement must be dated within four months of the note date (B1-1-03).<br>Per Fannie Mae, the "<u>note date</u>" is the date on the note itself at the top of the document. It may not necessarily be the date on which the note was signed.<br><br><u>Disputed Credit Report Tradelines (B3-5.3-09)</u><br>When the credit report contains tradelines disputed by the borrower, DU will first assess the risk of the loan casefile using all tradelines, including those disputed. If DU issues an Approve recommendation using the disputed tradelines, no further documentation or action is necessary. DU will issue a message specific to this scenario.<br><br>If DU does not issue an Approve recommendation when including the disputed tradelines, DU will re-assess the risk without using the disputed tradelines. If DU is then able to issue an Approve recommendation, the underwriter must investigate th trade-lines to determine whether the borrower is responsible for the accounts or if the account information is accurate or complete.<br>• If the borrower is not responsible for the disputed accounts, the underwriter must obtain supporting documentation and may deliver the loan as a DU loan. No further action is necessary regarding the |

disputed tradelines.

- If the borrower is responsible for the disputed account, the underwriter must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the underwriter may deliver the loan as a DU loan.
- If the borrower is responsible for the disputed account and the account and tradeline information is accurate and complete, the loan is not eligible for delivery as a DU loan. (Note: LSM does not allow manual underwriting of conventional loans.)

Credit Scores – Normally all borrowers must have at least two credit scores

For Primary Residence purchase and rate/term financing flexibilities apply as follows.

- One borrower on every loan must have a credit score except for High Balance loans.
- On High Balance loans all borrowers on the loan must have at least one credit score.
- Loans > 80% LTV with one or no score borrowers are subject to Mortgage Insurers requirements for eligibility.
- Borrower with one credit score or borrower without a credit score (see below) eligible on primary residence Purchase, Rate & Term 1 unit maximum 95% LTV minimum credit score 620.
  - **Borrower with one credit score is eligible as follows.**
    - DU Approve/Eligible decision required
    - Credit data is available from one repository and credit score is obtained from that repository
    - A three in-file merged credit report was ordered

  - **Borrower without a credit score is eligible if at least one other borrower has one credit score and all conditions are met as follows (B3-5.4-01)**
    - DU Approve/Eligible decision required
    - Primary residence 1-unit only and all borrowers will occupy the property
    - Transaction is purchase or limited cash-out refinance
    - Borrower with a credit score must contribute more than 50% of the qualifying income (LSM overlay)
    - Self-employed income is allowed (SEL-2016-07)
    - Loan is not a High Balance loan

Waiting Periods after Significant Derogatory Credit Events (B3-5.3-07)
The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. LSM follows standard FNMA Waiting Period Requirements. Reduced waiting periods due to "Extenuating Circumstances" are allowed on a case by case basis.

DU uses the credit report date to measure whether or not the applicable waiting period has been met after a significant derogatory event. If DU determines that the waiting period has not been met based on the credit report used on the initial submission to DU, the underwriter may obtain an updated credit report and resubmit the loan casefile to DU after the required time has elapsed. Manual underwriting is not allowed by LSM (overlay).

**Deed-in-Lieu of Foreclosure and Preforeclosure Sale Message Updates (DU Version 9.1 Update)**
The waiting period requirements for borrowers who have had a previous deed-in-lieu of foreclosure or preforeclosure sale (aka "short sale") are being updated to now require a four-year waiting period; though a two-year waiting period will be permitted if the event was due to extenuating circumstances per FNMA guidelines. The loan-to-value restrictions previously tied to different waiting period timeframes are also being removed.

**Charge-Off Policy Message Addition (DU Version 9.1 Update)**
Mortgage accounts that have been subject to a charge-off (manner of payment = "9") will require a four-year waiting period after the charge-off occurred and prior to the disbursement date of the new loan. However, a two-year waiting period will be permitted if the event was due to extenuating circumstances per FNMA guidelines.

Summary – All Waiting Period Requirements (*B3-5.3-07*)
The following table summarizes the waiting period requirements for all significant derogatory credit events.

| Derogatory Event | Waiting Period Requirements | Waiting Period with Extenuating Circumstances |
|---|---|---|
| **Bankruptcy – Chapter 7 or 11** | 4 years | 2 years |
| **Bankruptcy – Chapter 13** | • 2 years from discharge date<br>• 4 years from dismissal date | • 2 years from discharge date<br>• 2 years from dismissal date |
| **Multiple Bankruptcy Filings** | 5 years if more than one filing within the past 7 years | 3 years from the most recent discharge or dismissal date |

<table>
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<tr><td></td><td></td><td></td></tr>
<tr><td>**Foreclosure**[1]</td><td>7 years</td><td>3 years<br>Additional requirements after 3 years up to 7 years:<br>- 90% maximum LTV ratios[2]<br>- Purchase, principal residence<br>- Limited cash-out refinance, all occupancy types</td></tr>
<tr><td>**Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account**</td><td>4 years</td><td>2 years</td></tr>
</table>
[1] When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the underwriter may apply the bankruptcy waiting period if the underwriter obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.<br>
[2] References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the *Eligibility Matrix*.<br><br>
Note: Check with mortgage insurance company guidelines, if applicable, since not all insurers follow the shorter waiting periods offered above.<br><br>
Ineligible<br>
- Manual Underwriting
</td></tr>
<tr><td>**Documentation**</td><td>Document as determined by DU Findings, FNMA Selling Guide and LSM guidelines<br>LSM will accept digitally signed documents per FNMA guidelines.<br><br>Power of Attorney is not allowed on any of the following:<br>- Properties held in trust<br>- Cash Out refinance transactions<br><br>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%.<br>Individual state laws may supersede this requirement.<br><br>**Escrow Accounts Required (FNMA B2-1.2-02 & 2-03):**<br>Escrow accounts are required on all rate/term refinance transactions when real estate taxes are financed into the loan. Escrow accounts are required on all cash out refinance transactions when the new loan amount includes the financing of real estate taxes that are more than 60 days delinquent. The requirement may be superseded by state law to the extent certain states limit escrow requirements.</td></tr>
<tr><td>**Fidelity/Crime Insurance**</td><td>Fidelity/Crime insurance is required for all condo projects except:<br>- Condo projects reviewed under Limited Review method,<br>- Condo projects consisting of 20 units or less, or<br>- Condo projects that would need fidelity/crime insurance coverage of ≤ $5,000 (B7-4-02)</td></tr>
<tr><td>**Financing Types**</td><td>Purchase Mortgages<br><br>Rate and Term Refinance/Limited Cash Out Refinance<br>- See *Student Loan Cash-out Refinance* for a cost-effective way to incorporate the payoff of student loan(s) into a refinance transaction.<br>- Settlement 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.<br>- Pay off of the existing first mortgage (including an existing HELOC in first-lien position)<br>- Pay off of existing subordinate liens that were used in whole to acquire the subject property<br>- Closing costs and prepaid items may be financed into loan amount<br>- Cash out limited to the lesser of 2% of the principal amount of the new loan or $2000<br>- Note: Per SEL 2016-02 FNMA has eliminated its Continuity of Obligation policy<br>○ Important requirement/clarification for Rate/Term refinance:</td></tr>
</table>

Borrower must be on title to the subject property **<u>at the time of the appraisal</u>**. The appraisal must document that at least one individual owner of the property is the legal owner at the time the appraisal is completed. This means an <u>individual owner</u> who will be on the loan, not simply an entity (e.g., LLC) of which the individual is a member.

- Note: The transfer of a property after closing (back) into an LLC (or any other entity) may trigger the "due on sale" clause.
- Properties listed for sale (B2-1.2-02)
  - The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and
  - The borrowers must confirm their intent to occupy the subject property (for principal residence transactions)
  - Disbursement Date is the date loan funds are disbursed for the subject mortgage. The disbursement date may occur on or after the note date.
- Refinances to Buy Out An Owner's Interest
  - A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance <u>if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan</u>.
    - All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in cases in recent inheritance, documentation must be provided to indicate joint ownership by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
    - Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing.
- 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).
    - The title policy will reference the Texas Section 50(a)(6).

<u>Ineligible for Rate and Term/ Limited Cash Out Refinance (B2-1.2-02)</u>
When the following conditions exist the loan is not eligible for limited cash out refinance:

- No outstanding first lien on the subject property
- Proceeds used to pay off a subordinate lien that was not use in its entirety to purchase the property
- Borrower finances the payment of real estate taxes for the subject property in the loan amount, but does not establish an escrow account
- Borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount
- A short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or any refinance of that loan within six months.

<u>Cash-Out Refinance (B2-1.2-03)</u>
See *Student Loan Cash-out Refinance* for a cost-effective way to incorporate the payoff of student loan(s) into a refinance transaction.
Cash-Out refinance transactions must meet the following requirements:

- The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
- The property must have been purchased (or acquired) by the borrower at least six months prior to the disbursement date of the new mortgage loan except for the following:
  - There is no waiting period if the underwriter documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
  - The delayed financing requirements are met. See *Delayed Financing Exception* below.
- Note: Per SEL 2016-02 FNMA has eliminated its Continuity of Obligation policy
  - <u>Important requirement/clarification for Cash-out refinance</u>:
  - For a cash-out refinance the property must have been acquired by the individual borrower(s) at least six months prior to the disbursement of the new loan. If the borrower transferred title from and LLC to individuals, the borrowers (as individuals) must wait at least 6 months to comply with the seasoning requirement for a cash-out refinance.

    - Title in the name of a Corporation or an LLC is ineligible for financing (no exceptions). Title must reflect the name of the individual (natural person) for the past 6 months prior to loan disbursement date. Living Trusts are acceptable.
- Note: The transfer of a property after closing (back) into an LLC (or any other entity) may trigger the "due on sale" clause.
- If the new loan amount includes the financing of real estate taxes that are more than 60 days delinquent an escrow (impound) account is <u>required</u>, unless requiring an escrow account is not permitted by applicable law or regulation. For example, if a particular state law does not allow a underwriter to require an escrow account under certain circumstances, the loan will still be eligible without an escrow account. (See *Escrow Waivers*)
- Properties listed for sale in the six months preceding the disbursement must have been taken off the market on or before the disbursement date of the new mortgage. There is no longer an LTV reduction required for a cash-out refinance. (SEL 2017-04)
- Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date the installment land contract was executed are ineligible.
- 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).

<u>Restructured Mortgage (SEL 2016-05)</u>
FNMA has eliminated its restructured loan policy. Loans must qualify as regular refinance transactions or modified mortgage loans. (B2-1.4-02)

<u>Payoff or Paydown of Debt for Qualification</u> – See *Underwriting*

<u>*Delayed Financing Exception* (FNMA B2-1.2-03)</u>
Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met:

- The original purchase transaction was an arms-length transaction
- For this refinance transaction the borrower(s) must meet Fannie Mae's and LSM's borrower eligibility requirements. The borrower(s) may have initially purchased the property as one of the following:
    - A natural person;
    - An eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
    - An eligible land trust when the borrower is the beneficiary of the land trust; or
    - An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%
- The original purchase transaction is documented by a Settlement Statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed [or similar alternative] confirming the amount paid by the grantee to trustee may be substituted for a Settlement Statement if a Settlement Statement was not provided to the purchaser at time of sale.)
- The preliminary title search or report must confirm that there are no existing liens on the subject property
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property)
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the Settlement Statement for the refinance transaction must reflect that all cash-out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.
    - Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan

- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for the transaction based on the current appraised value)
- All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.
- NOTE: Investor and second home borrowers with five to ten financed properties are ineligible for cash-out refinance transactions unless all of the delayed financing exceptions requirements listed above are met. Additional restrictions apply. (See FNMA B2-2-03)

**Note: Per SEL 2016-02 FNMA has eliminated its Continuity of Obligation policy**

**Construction-to-Permanent Financing**
***(See FNMA B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions)***
LSM will not allow “single-closing” loans that meet FNMA “single-closing” parameters listed in the Selling Guide.

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.

**Overlay**

Amended Tax Returns:

- Will not be considered if within 60 days of the purchase contract or application date (whichever is earlier) 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.

**Locations/Restrictions**

Eligible states are as follows:

- AZ, CA, CO, FL, GA, IL, IN, KY, LA, MD, MA, MT, MI, MN, NV, NM, NJ, NC,OK, OR, SC,TX, UT, WA & WI
- **Note:** Texas Cash-out 50(a)(6) loans are eligible.
    - FNMA has issued a new Texas Home Equity Affidavit and Agreement (Form 3185) which has been updated to reflect new disclosure requirements under TILA and RESPA and removes references to the HUD-1 Settlement Statement. Lenders are required to use this form for mortgage loans with application dates on or after the effective date of TRID published by the CFPB.

State specific regulatory requirements supersede all underwriting guidelines set forth by LSM.

**High-Cost Mortgage Loans**

LSM does not originate or purchase high-cost mortgage loans (12 CFR 1026.32)

**HomePath Properties / FNMA REO**

See *B5-4-08 Loans Secured by HomePath Properties*

A HomePath property is a property that was owned and sold by Fannie Mae through a transaction resulting in the disposition of its real estate owned (REO). When the property secured by the mortgage is a HomePath property, Fannie Mae will allow certain exceptions to standard Selling Guide eligibility policies as described below.

Interested Party Contributions
An exception to the maximum interested party contribution (IPC) limit for principal residences is permitted as follows:

| Occupancy Type | LTV/CLTV Ratio | Maximum IPC |
|---|---|---|
| Principal Residence | Greater than 90% | 6% (vs. standard FNMA 3%) |

Note: DU is not able to determine if the subject property is a sale of a HomePath property. DU will issue a message if the amount of the IPC appears to exceed the standard limits described in *B3-4.1-02, Interested Party Contributions (IPCs).* The underwriter must determine whether the subject transaction is a purchase of a HomePath property eligible for the higher IPC limit and document the loan file accordingly.

Certain Resale Restrictions
Loans subject to resale restrictions imposed by Fannie Mae as the seller of its REO property are eligible.

Special Feature Code (SFC) for HomePath Properties with an Eligible Exception
Loans must use SFC 679 for a loan secured by a HomePath property if the multiple financed property and/or the IPC exceptions above apply to the transaction. This code is in addition to any other special feature codes that may apply. SFC 679 is not required for a loan secured by a HomePath property that is subject solely to the resale restriction exception.

**HomeReady**
**≤ 95%**
**LTV/CLTV/HCLTV**

See FNMA Selling Guide Chapter B5-6 for complete guidelines.

The HomeReady mortgage is a conventional community lending mortgage that offers underwriting flexibilities to qualified borrowers who meet specific income criteria. The standard FNMA LTV/CLTV/HCLTV primary residence matrix for purchase and rate/term refinance is used

For HomeReady loans > 95% see next section ***HomeReady 95.01% to 97% LTV/CLTV/HCLTV***

General Loan Eligibility
- First Mortgage
- Purchase Money or Limited Cash-out refinance
- Principal residence – 1 to 4 units
    - 1 unit properties, including manufactured housing*, and units in condos and PUDs
    - Existing structures and new construction
    - 2-4 unit properties

*Note: The maximum LTV, CLTV, and HCLTV ratio for a one-unit HomeReady manufactured home is 95%

Subordinate Financing
Subordinate financing must comply with:
- The terms for the Community Seconds option, which allow a maximum CLTV to 105% (see B5-5.1-01 through B5-5.1-03)
- Subordinate financing is permitted in accordance with B2-1.1-04

Subordinate financing from a seller-held mortgage (i.e., seller carryback financing) is **not** permitted with HomeReady mortgages.

Borrower Income Limits
Underwriter must count the income from all of the borrowers who will sign the mortgage note, to the extent that the income is considered in evaluating creditworthiness for the mortgage loan.
Methodology for income eligibility is the same for HomeReady loans as the underwriter uses in reporting "Monthly Income" in data delivery (i.e., normal FNMA guidelines).

Total annual qualifying income may not exceed 100% of the Area Median Income (AMI) for the property's location. There is no income limit for properties located in low-income census tracts, defined as those census tracts where the median tract income is no greater than 80% AMI. Underwriter must use AMIs published by Fannie Mae and/ or found in Desktop Underwriter. AMIs from other sources (e.g., HUD) are not acceptable.

Note: For loan casefiles that are not underwritten as a HomeReady mortgage loan, DU will issue a message indicating that the loan may be eligible as a HomeReady loan if the total qualifying income entered in DU appears to be within the applicable AMI limit or the property is located within a low-income census tract.

HomeReady Income Limits 2017
Area Median Income estimates (AMIs) will be implemented in Desktop Underwriter (DU) on July 8, 2017. For casefiles created on or after July 8, 2017, DU will apply the 2017 limits.

Pre-purchase Homeownership Education (B2-2-06)
Pre-purchase homeownership education is **required** for all HomeReady purchase mortgage loans.
One borrower on each HomeReady mortgage must meet the homeownership education requirement. (The requirement may be met by either an occupant or a non-occupant borrower). There are three ways to meet the requirement:
- Complete the Framework homeownership online course (the default option for HomeReady loans)
- For HomeReady loans delivered with a Community Second or down payment assistance, the borrower may satisfy the HomeReady requirements by meeting the homeownership education requirement of the down payment assistance program, as long as it is provided by a HUD-approved counseling agency
- While counseling or "homeownership advising" is not required for the HomeReady mortgage, borrowers may meet the HomeReady requirement if they complete counseling and have a Certificate of Completion of Pre-Purchase Housing Counseling (Form 1017) completed by the provider.

Pre-Purchase Housing Counseling
The completion of Pre-Purchase Housing Counseling is no longer a required compensating factor to support DTI above 45% (SEL-2017-06).

Minimum Borrower Contribution for Purchase Transactions
A minimum borrower contribution from the borrower's own funds is not required if the loan has an LTV, CLTV, or HCLTV ratio of 80% or less.

If the LTV, CLTV, or HCLTV ratio is greater than 80%, the minimum required borrower contribution from the borrower's own funds is dependent on the number of units, as noted in the table below.

| Number of Units | Minimum Borrower Contribution | Minimum Down Payment Requirement[1] |
|---|---|---|
| **One** | None | 3%[2] |
| **Two** | 3% | 15% |
| **Three or Four** | 3% | 25% |

1. Refer to the Eligibility Matrix for additional details
2. A 3% down payment is permitted for certain purchase transactions

Non-Occupant Borrowers (up to 95% LTV)
Non-occupant borrowers are permitted on HomeReady mortgages.

- Not required to be a family member
- Income is included in determining Area Median Income (AMI) limits

Rental Income from the Subject Property
Rental income is an acceptable source of qualifying income in the following instances:

- One-unit principal residence with an accessory unit (See B4-1.3-05 for additional details related to acceptable accessory units)
- 2 – 4 unit principal residence properties
- Standard FNMA rental income documentation applies (B3-3.1-08)

Boarder Income
The rental payments that any borrower receives from one or more individuals who reside with the borrower (but who are not obligated on the mortgage debt and may or may not be related to the borrower) may be considered as acceptable stable income. This applies for a one-unit property in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage if:

- The individual(s) has lived with (and paid rent to) the borrower for the last 12 months.
- The boarder can provide appropriate documentation to demonstrate a history of shared residency (such as a copy of a driver's license, bill, or bank statement that shows the boarder's address as being the same as the borrower's address)
- The boarder can demonstrate (such as with copies of cancelled checks) the payment of rental payments to the borrower for:
    - The last 12 months, or
    - At least 9 of the most recent 12 months provided the rental income is averaged over a 12-month period.

**Payment of rent by the boarder directly to a third party is not acceptable.**

Non-Borrower Household Income
The existence of income from a non-borrower household member is no longer a required compensating factor to support DTI above 45% (SEL-2017-06).

Cash-on-Hand (1-unit properties only)
Cash-on-hand may be used as an acceptable source of funds for the borrower's down payment, funds for closing costs, and prepaid items. Cash-on-hand **may not** be used to fund the borrower's reserve requirements, if any. Cash-on-hand must be verified and documented as follows:

- The borrower customarily uses cash for expenses, and the amount of funds saved is consistent with the borrower's previous payment practices
- The underwriter must verify that funds for the down payment and closing costs exist in a financial institution account or an acceptable escrow account. Funds must be on deposit at the time of application, or no less than 30 days prior to closing
- The underwriter must obtain a written statement from the borrower that discloses the source of funds and states that the funds have not been borrowed
- The borrower's credit report and other verifications should indicated limited or no use of credit and limited or no depository relationship between the borrower and a financial institution.

| Mortgage Insurance Coverage Requirements for HomeReady mortgages | | | | |
|---|---|---|---|---|
| | LTV Range | | | |
| Transaction Type | 80.01 – 85.00% | 85.01 – 90.00% | 90.01 – 95.00% | 95.01 – 97.00% |
| Fixed Rate Term ≤ 20 years | 6% | 12% | 25%* | 25%* |
| Fixed Rate Term > 20 years and **all MFH loans** | 12% | 25% | 25%* | 25%* |

* Reduced or lower cost MI (i.e., coverage below these stated amounts) is not eligible (LSM overlay)

Special Feature Codes (SFCs)

Special Feature Code (SFC) 900 must be delivered for all HomeReady mortgage loans.
In addition, one or more of the following codes may also be required:

- Loans with Community Seconds – 118
- Loans where at least one borrower completed pre-purchase housing counseling – 184

HomeReady – LSM overlays

The following are not allowed for HomeReady programs:
ARMs
Temporary buydowns
Manual underwriting
Non-traditional credit, including non-traditional credit required to support a DU decision
Custom MI
Construction conversion or renovation mortgages
Sweat equity
Unsecured loans from originating lender used as a source of funds

**HomeReady Resource Links:**

Fannie Mae HomeReady Originating and Underwriting Site:
www.fanniemae.com/homeready
https://www.fanniemae.com/singlefamily/homeready

HomeReady FAQs:
https://www.fanniemae.com/content/faq/homeready-faqs.pdf

HomeReady Income Eligibility Lookup Tool:
https://homeready-eligibility.fanniemae.com/homeready/

HomeReady Income Eligibility Lookup Tool Tips:
https://www.fanniemae.com/content/fact_sheet/homeready-income-eligibility-tool-tips.pdf

Homeownership Education and Housing Counseling FAQs:
https://www.fanniemae.com/content/faq/home-buyer-education-policies-faqs.pdf

Framework Overview:
https://www.fanniemae.com/content/fact_sheet/homeready-framework-overview.pdf
https://www.knowyouroptions.com/framework

Framework Homeownership Course:
https://homeready.frameworkhomeownership.org/

Certificate of Completion of Pre-Purchase Housing Counseling (Form 1017):
https://www.fanniemae.com/content/guide_form/1017.pdf

HUD-approved counseling agencies:
www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm

HomeReady Non-Borrower Household Income Worksheet and Certification (Form 1019):
https://www.fanniemae.com/content/guide_form/1019.pdf

Fannie Mae Loan Lookup (does Fannie Mae own your loan?):
https://www.knowyouroptions.com/loanlookup

Community Seconds Checklist:

https://www.fanniemae.com/content/fact_sheet/community-seconds-checklist.pdf

**HomeReady 95.01% to 97% LTV/CLTV/HCLTV**

See FNMA Selling Guide Chapter B5-6 for complete guidelines.

If the LTV, CLTV, or HCLTV ratio **exceeds 95%** for a HomeReady transaction, the following requirements apply:

| **Criteria** | Requirements |
|---|---|
| **LTV, CLTV, or HCLTV Ratio** | 95.01 to 97.00%<br>Note: The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan. |
| **Loan Purpose** | Purchase transactions or limited cash-out refinances only |
| **Existing Loan** | For limited cash-out refinances:<br>The underwriter must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from:<br>• The lender's servicing system<br>• The current servicer (if the lender is not the servicer),<br>• Fannie Mae's Loan Lookup tool, or<br>• Any other source as confirmed by the underwriter<br>The underwriter must inform DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage field in the online loan application before submitting the loan to DU<br>Note: This requirement does not apply if the CLTV exceeds 95% only due to a Community Seconds loan. |
| **Loan Type** | Fixed-rate loans with terms up to 30 years<br>High-balance loans are not permitted |
| **Property and Occupancy** | One-unit principal residence. All borrowers must occupy the property.<br>Manufactured Housing is not permitted. |
| **Credit Score Requirements** | At least one borrower on the loan must have a credit score. |
| **Underwriting Method** | DU only |
| **Reserves** | Reserves determined by DU |
| **Other** | All other standard purchase and limited cash-out refinance and HomeReady requirements apply. |

**Income**

DU Approve/Eligible
- 4506-T must be processed prior to closing.
    - NOTE: If Correspondent Seller receives Day 1 Certainty DU Income Validation and findings do not ask for 4506-T then it need not be provided.

Evaluated per DU and Fannie Mae 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. See FNMA B3-3.1-02 for VOE instructions for various fields.
- At minimum a paystub and W-2 is required

Income used for loan qualification related to Cannabis (aka marijuana) is disallowed
This applies to all types of employment and income, including:
- Self-employed owners of farms, shops, dispensaries, etc.
- Workers/wage earners paid from businesses above
- Regardless of state laws, filing of tax returns, receipt of 1099s/W-2s

Self-Employed Income (SEL 2015-09 and B3-3.2 and B3-3.3)
Self-employed borrowers may use business income for qualification if:
- There is a documented history of receiving distributions, or
- There is no history of receiving distributions but certain other conditions are met, namely
    - The borrower has access to the business income and
    - The business must have adequate liquidity to support the withdrawal of earnings

Verification of Self-Employed Income
The underwriter may verify a self-employed borrower's employment and income by obtaining copies of signed federal income tax returns (individual and in some cases business returns) that were filed with the IRS for the past two years (with all schedules). For DU loan casefiles where two years of the most recent personal and two years of the most recent business returns are required, business tax returns do not have to be provided unless the business is a corporation, an S corporation, a limited liability company, or a partnership.

When two years of signed individual federal tax returns are provided, the underwriter may waive the requirement for business tax returns if:

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

For certain loan casefiles DU will issue a message permitting only one year of personal and business tax returns, provided lenders document the income by:

- Obtaining signed individual and business federal income tax returns for the most recent year,
- Confirming the tax returns reflect at least 12 months of self-employment income, and
- Completing Fannie Mae's *Cash Flow Analysis* (Form 1084) or any other type of cash flow analysis form that applies the same principles.

Self-Employed History – Borrower must have been self-employed for a minimum of 24 months regardless of documentation requirements

Self-Employed – Personal Income Analysis
The underwriter must prepare a written evaluation of its analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. This is not required when a borrower is qualfieid using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Underwriter may use Form 1084 or similar type of cash flow analysis.

Self-Employed – Business Income Analysis
When a borrower is relying upon self-employed income to qualify for a mortgage and the requirements that permit the underwriter to waive the business tax returns are **not** met, the underwriter must prepare a written evaluation of its analysis of the borrower's business income. The underwriter must evaluate the borrower's business through its knowledge of other businesses in the same industry to confirm the stability of the borrower's business income and estimate the potential for long-term earnings. The underwriter may use Fannie Mae's Comparative Income Analysis (Form 1088) or any other method trend analysis that enables it to determine a business's viability, as long as the method used fairly presents the viability of the business and results in a degree of accuracy and a conclusion that is comparable to that which would be reached by use of Form 1088 (See B3-3).

Verification of Income - Schedule K-1 (See B3-3.2.1-08)
For Schedule K-1 borrowers with less than 25% ownership of a partnership, an S corporateion, or an LLC:

- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.
- If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the underwriter must confirm **all of the following** to include the income in the borrower's cash flow:
  - The borrower has access to the income (e.g., partnership agreement or corporate resolution)
  - The business has adequate liquidity to support the withdrawal of earnings.
- If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow.

Rental Income (See *B3-3.1-08* for how to address rental income on business returns)
FNMA has updated and clarified the calculation of rental income received through a business.

- Rental income received through a partnership or an S corporation may offset the PITIA on an investment property (when the borrower is personally obligated on the mortgage) by obtaining the borrower's business tax returns for the most recent year and evaluating IRS Form 8825 in a manner consistent with the evaluation of rental income reported on Schedule E of a borrower's personal tax returns; and
- In order to include positive net rental income in qualifying such borrowers, the income received through a partnership or an S corporation must be evaluated per existing guidelines for business income received from a partnership or corporation.
- FNMA has created three separate worksheets (as Microsoft Excel spreadsheets) for lenders to use to calculate rental income. **Form 1038 is available in two versions** – one version supports up to four investment properties, and the other version supports up to ten investment properties. The worksheets are recommended but not required:
  - Rental Income Worksheet – Principal Residence, 2- to 4-unit Property (Form 1037) https://www.fanniemae.com/content/guide_form/1037.xlsx
  - Rental Income Worksheet – Individual Rental Income from Investment Property(s) (**up to 4 properties) (Form 1038)** https://www.fanniemae.com/content/guide_form/1038.xlsx
  - Rental Income Worksheet – Individual Rental Income from Investment Property(s) (**up to 10**

**properties) (Form 1038A)**
https://www.fanniemae.com/content/guide_form/1038a.xlsx

  - Rental Income Worksheet – Business Rental Income from Investment Property(s) (Form 1039)
https://www.fanniemae.com/content/guide_form/1039.xlsx

Important FNMA Rental Income Requirement (FNMA A3-4-02):
Even if the borrower is not using any rental income from the subject property to qualify, gross monthly rent must still be documented for underwriter reporting purposes. The borrower may provide one of the following sources (listed in order of preference):

- An appraisal report for a one unit investment property or two to four unit property, OR single family comparable rent schedule (Form 100&), provided neither is dated more than 12 months prior to note date;
- If the property is not currently rented, the underwriter may use the opinion of market rents provided by the appraiser; or
- If an appraisal or Form 1007 is not required for the transaction, the underwriter may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross monthly rent being charged o(or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two to four unit property. The disclosure from the borrower must be in the form of one of the following:
  - A written statement from the borrower, or
  - An addition to the Uniform Residential Loan Application (Form 1003)

The documentation that was relied upon to determine the amount of eligible rent reported must be retained in the loan file.

Calculation of Rental Income when using Market Rent (2017-02)(B3-3.1-08)
When using current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the underwriter must calculate the income by multiplying the gross monthly rent(s) by 75%. (This is referred to as "Monthly Market Rent" on the Form 1007.) The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses. This provides consistency in the calculation.

Social Security Income (B3-3.1-09)
An SSA Award letter may be used to document the income if the borrower is receiving Social Security payments or if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter.

Temporary Leave Income ( see *B3-3.1-09 Other Sources of Income* for specific instructions)
Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.
If a underwriter is made aware (through the employment or income verification process) that a borrower will be on temporary leave at the time of closing of the mortgage loan and that borrower's income is needed to qualify for the loan, the underwriter must determine allowable income and confirm employment per the FNMA Selling Guide.

If the borrower **will** return to work as of the first mortgage payment date, the underwriter can consider the borrower's regular employment income in qualifying.
If the borrower **will not** return to work as of the first mortgage payment date, the underwriter must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than his or her regular employment income, the underwriter may supplement the temporary leave income with available liquid financial reserves.

If the borrower is not currently on temporary leave, the underwriter must not ask if he or she intends to take leave in the future.

Tip Income (SEL-2015-07)
Tip income may be included in qualifying income if the underwriter can verify that the borrower has received the income for the last two years. Tip income can be verified using a Request for Verification of Employment (VOE, Form 1005 or Form 1005(s)), or recent paystubs and IRS W-2 forms.

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

Unreimbursed Employee Business Expenses (SEL-2015-07)
The following changes and clarifications have been made to the *Selling Guide* related to unreimbursed employee business expenses.

- For a borrower who is qualified using base pay, bonus, overtime, or commission income less than 25%

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| | of the borrower’s annual employment income:<br>o Unreimbursed employee business expenses are not required to be analyzed or deducted from the borrower’s qualifying income, or added to monthly liabilities. This applies regardless of whether unreimbursed employee business expenses are identified on tax returns (IRS Form 2106) or tax transcripts received from the IRS.<br>o Union dues and other voluntary deductions identified on the borrower’s paystub do not need to be deducted from the borrower’s income or treated as a liability.<br>o Tax returns are not required to document these sources of income.<br>• For borrowers earning <u>commission income that is 25% or more</u> of annual employment income, unreimbursed employee business expenses must be deducted from gross commission income regardless of the length of time that the borrower has filed that expense with the IRS.<br>o The exception to this is if the expense is an actual automobile lease or loan payment. If borrowers report an automobile allowance as part of their monthly qualifying income, the underwriter must determine if the automobile expenses reported on IRS Form 2106 should be deducted from income or treated as a liability per the *Selling Guide*.<br><br><u>Use of IRS W-2 Transcripts in Lieu of W-2s (SEL-2015-07)</u><br>Fannie Mae will now permit an IRS “Wage and Income Transcript” (W-2 transcript) in lieu of the actual W-2 forms.<br><br><u>Employment Offers or Contracts (B3-3.1-09)</u><br>If the borrower is scheduled to begin employment after the loan closes, the following two options are available:<br>• <u>Loan delivered to FNMA after borrower starts employment</u><br>o Underwriter obtains executed copy of the borrower’s offer or contract for future employment and anticipated income and<br>o Prior to delivering the loan to Fannie Mae, the underwriter must obtain a paystub from the borrower that includes sufficient information to support the income used to qualify the borrower based on the offer or contract. The paystub must be retained in the mortgage loan file.<br>• <u>Loan delivered to FNMA prior to borrower starting employment</u><br>o Limited to loans that meet the following criteria<br>▪ Purchase transaction<br>▪ Principal residence<br>▪ One-unit property<br>▪ The borrower is not employed by a family member or by an interested party tot eh transaction, and<br>▪ The borrower is qualified using only fixed based income<br>o Underwriter obtains and reviews the borrower’s offer or contract for future employment. The employment offer or contract must<br>▪ Clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower’<br>▪ Clearly identify the terms of employment, including position, type and rate of pay, and start date; and<br>▪ Be non-contingent. Note: If conditions of employment exist, the underwriter must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.<br>▪ The employment start date as shown on the employment offer or contract must be within 90 days of the note date<br>▪ The underwriter must document, in addition to the amount of reserves required by DU or for the transaction, one of the following:<br>• Reserves sufficient to cover PITIA for the subject property for six months, or<br>• Reserves or current income sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, <u>plus one.</u> For calculation purposes, any portion of a month counts as a full month.<br>▪ Underwriter must deliver the loan with Special Feature Code 707 |
| **Liabilities** | <u>Student Loans – Payment Calculation for Student Loans (B3-6-05) (SEL 2017-04, SEL 2017-06)</u><br>For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the underwriter must include a monthly payment in the borrower’s recurring monthly debt obligation when qualifying the borrower.<br><br>If a monthly payment is provided on the credit report, the underwriter may use that amount as the monthly payment for qualifying purposes. If the credit report does not reflect the correct monthly payment, the underwriter may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. |

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| | If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the underwriter must determine the qualifying monthly payment using one of the options below:<br>• If the borrower is on an income-driven payment plan, the underwriter may obtain student loan documentation to verify the actual monthly payment is $0. The unerwriter may then qualify the borrower with a $0 payment<br>• For deferred loans or loans in forbearance, the underwriter may calculate<br>• A payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or<br>• A fully amortizing payment using the documented loan repayment terms<br><br><u>Debts Paid by Others (SEL 2017-04)(SEL 2017-06)</u><br>Certain debts can be excluded from the borrower's recurring monthly obligations and the DTI ratio:<br>• When a borrower is obligated on a non-mortgage debt -- but is not the party who is actually repaying the debt – the underwriter may exclude the monthly payment from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payment, alimony, child support, and separate maintenance.<br>• When a borrower is obligated on a mortgage debt – but is not the party who is actually repaying the debt – the underwriter may exclude the monthly mortgage payment from the borrower's recurring monthly obligations if the party making the payments is obligated on the mortgage debt.<br>In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the underwriter must obtain the most recent 12 months cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.<br><br><u>Timeshare Accounts (B3-5.3-03)</u><br>For the purposes of complying with mortgage delinquency guidelines, timeshare accounts identified as mortgage tradelines are not required to meet the requirements pertaining to mortgages, and are considered to be installment accounts. Likewise, timeshare accounts are not subject to waiting periods for significant derogatory events (B3-5.3-07) A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (i.e., even if reported as a mortgage loan)(B3-6-05).<br><br><u>Alimony Treatment (B3-6-05)</u><br>For alimony obligations, the underwriter has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If the underwriter exercises this option, a copy of the divorce decree, separation agreement, court order or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.<br>• When using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, enter the adjusted income figure as the income amount in DU. |
| **Limitations on Other Real Estate Owned** | The 10 financed property limit is cumulative for all borrowers. These limitations apply to the total number of properties financed, not to the number of mortgages on the property.<br><br>Multiple Loans to the Same Borrower<br>• Maximum 20% concentration in any one project or subdivision<br>• LSM will allow loans on 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.<br>Primary Residence<br>• Borrower may have an unlimited number of financed properties with multiple different lenders.<br>Second Homes & Investment Properties<br>• Borrower may own or be obligated on up to 10 financed property, including borrower's primary residence<br>• Subject Property – Second Home - Per DU (typically 2 months PITIA) if subject property is a second home<br>• Subject Property – Investment - Per DU (typically 6 months PITIA) if subject property is investment property<br>• Other Financed Properties<br>• See sections for *Assets* and *Underwriting*<br>New multiple loans must be underwritten simultaneously<br><br>**Mortgage insurers reserve eligibility requirements may supersede those listed above.** |
| **Loan Amount** | Minimum Conforming Loan Amount: $75,000 |
| **Mortgage Insurance** | **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.**<br><br>The following supersedes all other guidelines for > 80% LTV with MI availability<br>• All loans must be submitted to DU Approval/Eligible |

- Reserve requirement by mortgage insurers 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 MI paid by borrower
- 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.

**Special LTV calculations for New York properties (B7-1-01)**
Mortgage loans with application dates on or after November 1, 2015, must comply with FNMA requirements in calculating "value" for required mortgage insurance and MI coverage on properties in New York.
- The appraised value is used to calculate the LTV ratio to determine **whether mortgage insurance is required** for non-co-op properties, and
- The lesser of the appraised value or sales price is used to calculate the LTV ratio to determine the **level of mortgage insurance coverage** that is required.

Ineligible MI
- Financed MI
- Borrower Paid Single Premium paid by other than borrower
- Split Premium – upfront portion paid by borrower or seller of the property
- Prepaid Mortgage Insurance
- 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, all ARMs, and all Manufactured Homes

| Coverage | LTV |
|---|---|
| 12% | 80.01% - 85% |
| 25% | 85.01% - 90% |
| 30% | 90.01% - 95% |
| 35% | 95.01% - 97% |

Coverage requirements for fixed rate ≤ to 20 years

| Coverage | LTV |
|---|---|
| 6% | 80.01% - 85% |
| 12% | 85.01% - 90% |
| 25% | 90.01% - 95% |
| 35% | 95.01% - 97% |

Reduced MI coverage amounts provided by agency and AUS decisions are ineligible.

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**

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| | **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<br>• Includes parents or legal guardian wanting to provide housing for their physically handicapped or developmentally disabled adult child<br>o If the child is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the parent or legal guardian is considered the owner/occupant.<br>• Includes children wanting to provide housing for parents<br>o If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the child is considered the owner/occupant.<br>• See *Underwriting* for additional information<br>Second Homes<br>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**.<br><br>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 Inspection Waiver (PIW)** | **NOTE: Property Inspection Waiver (PIW) restricted as follows:**<br>• **Not eligible in Kansas – requires full appraisal**<br>• **Not eligible for Texas 50(a)(6) loan - requires full appraisal**<br><br>The Property Inspection Waiver (PIW) is an offer to waive the appraisal for certain refinance transactions. If a underwriter chooses to not exercise the PIW offer, the underwriter must obtain at least the minimum level of fieldwork (i.e., appraisal) recommended by DU.<br><br>Loan casefiles that are eligible for PIW will receive two fieldwork messages:<br>• One message indicating the availability of the PIW, and<br>• A second message indicating the fieldwork required if the underwriter chooses not to exercise the PIW<br>A PIW offer will be considered on the transactions below:<br>• One-unit properties, including condominiums<br>• Principal residence, second home, and investment property transactions<br>• Limited cash-out refinance transactions up to a 90% LTV/CLTV for principal residences and second homes; up to 75% LTV/CLTV for investment properties<br>• Cash-out refinance transactions up to a 70% LTV/CLTV for principal residences; up to a 60% LTV/CLTV for second homes and investment properties<br>• Loan casefiles that receive an Approve/Eligible recommendation<br>Purchase transactions and the majority of refinance transactions will not receive a PIW offer, which means they will require an appraisal by a qualified residential appraiser to establish the market value.<br><br>The following **not eligible** for a PIW offer:<br>• Properties located in a disaster-impacted area<br>• Purchase, construction, and construction-to-permanent loans<br>• Two- to four-unit properties<br>• Loan casefiles where the value of the subject property provided to DU is $1,000,000 or greater<br>• HomeStyle mortgage products (Renovation or Energy)<br>• DU Refi Plus loan casefiles (these continue to be eligible for a Property Fieldwork Waiver (PFW))<br>• Texas 50(a)(6) loans<br>• Leasehold properties, community land trust homes, or other properties with resale restrictions<br>• Manufactured homes<br>• DU loan casefiles that receive an ineligible recommendation<br>• Loans for which the mortgage insurance provider requires an appraisal<br>• Loans for which rental income from the subject property is used to qualify<br>o If the borrower is using rental income to qualify for the mortgage loan, the underwriter must obtain documentation that is used to calculate the monthly rental income for qualifying purposes. The Selling Guide states that Form 1007 is acceptable documentation for one-unit properties, and must be provided in conjunction with the applicable appraisal report.<br><br>DU will not offer a PIW when an appraisal has been uploaded to the Uniform Collateral Data Portal (UCDP) within the prior 120 days from any lender.<br><br>Special Feature Code |

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| | When exercising a PIW, the underwrier is required to include the casefile ID and Special Feature Code (SFC) 801. **Note:** When a underwriter obtains an appraisal and also receives a PIW offer, the PIW may not be exercised and the loan cannot be delivered with SFC 801.<br><br>PIW/PFW Fee<br>There is **no fee** associated with exercising a PIW or a DU Refi Plus property Fieldwork waiver (PFW).<br><br>Underwriter may exercise the PIW only when a PIW recommendation exists on the **final** submission to<br><br>DU. Resubmitting loan files that receive a PIW<br>Underwriter will need to resubmit a loan casefile to DU to ensure salability to Fannie Mae when key data elements of the transaction have changed such as the property address, occupancy, transaction type, loan amount, CLTV, and FICO, or the loan has not closed within four months of receiving a PIW offer.<br>• Upon resubmission of the loan data, the loan casefile may or may not receive a PIW recommendation. It is important to input correct data into the system as early as possible to avoid surprises.<br><br>Situations where appraisal is needed even when PIW recommendation is offered<br>There are certain situations in which a underwriter needs to obtain an appraisal, even though a PIW was offered on the loan casefile. Some examples include:<br>• When the underwriter has reason to believe that fieldwork is warranted based on subsequent events such as a hurricane or other natural disaster<br>• When the underwriter is required by law to obtain an appraisal.<br>o Note: Certain states require an appraisal for mortgage loans. DU does not screen for state requirements. Broker/MLO must be aware of state requirements for appraisal.<br>• The loan is a HomeStyle Energy mortgage. (DU does not capture HomeStyle Energy intent so it may issue an invalid PIW)<br>• The loan is a Texas Section 50(a)(6) mortgage (DU cannot identify Texas Section 50(a)(6) mortgages so it may issue an invalid PIW).<br>• The property is a leasehold property, community land trust home, or other property with resale restrictions<br>• When a mortgage insurance provider requires an appraisal<br>• Rental income from the subject property is used to qualify for the loan<br><br>When a underwriter obtains an appraisal **for any reason (including state law requirement)** and also receives a PIW offer, the PIW may **not** be exercised and the loan cannot be delivered with Special Feature Code 801.<br><br>"Not Listed for Sale" affidavit<br>Fannie Mae requires lenders to confirm that the subject property is not currently listed for sale. LSM typically relies on the appraiser to provide this information. If an appraisal is not obtained, the underwriter may obtain a signed affidavit from the borrower at the time of the loan application disclosing how long the borrower has owned the property, and stating that the property is not currently listed for sale.<br><br>Condo Project Review<br>All normal project review standards still apply for condos that receive a PIW offer. Underwriters will need to obtain the required documentation to review and support that the project meets the requirements for the particular review. |
| **Property Types** | Eligible property types<br>• 1-4 units<br>• Modular Pre-Cut/Panelized Housing<br>• PUDs<br>o PUDs (attached and detached) do not need to be reviewed against FNMA ineligible project characteristics list (*SEL 2015-09* and *FNMA B4-2.1-02*)<br>• Leasehold Estates (See *FNMA B2-3-03 and B4-1.4-05*) for complete requirements, including:<br>o The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower or a homeowners' association.<br>o The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.<br>• Attached Condos – Fannie Mae approved projects (1028/PERS Approval) (https://www.efanniemae.com/sf/refmaterials/approvedprojects/index.jsp) or Limited Review See FNMA Selling Guide B4-2.2-01, Limited Review Process<br>See Limited Review tables below.<br>• Detached Condos – Fannie Mae approved projects or Limited Review only. See FNMA Selling Guide B4-2.2-01, Limited Review Process, and B4-2.1-01, General Information on Project Standards.<br>o There are no LTV ratio or occupancy restrictions for Limited Review eligibility for |

    detached condo units (in new or established projects, including detached unit in a condo project that includes a mixture of attached and detached units)

- **Full Review conducted with the use of Condo Project Manager (CPM) – In addition to the above condo approval methods, LSM allows Fannie Mae's Condo Project Manager (CPM) full review approvals. Send an email to Scenarios_LS@lsmortgage.com for details.**
- Manufactured Homes – See LSM's Fannie Mae Fixed Rate Manufactured Home matrix for specifics

**Note: Florida condominiums are allowed in accordance with FNMA guidelines** (See FNMA Selling Guide B4-2.2-04 *Geographic Specific Condominium Project Considerations*)

- PERS review is required for **new and newly converted** condo projects consisting of attached units located in Florida. The following project review methods may not be used to review these types of projects in Florida:
  - Limited Review, or
  - Full Review (with or without CPM)
- Attached units in established condo projects **in Florida** are restricted to the following maximum LTV, CLTV, and HCLTV ratios when using Limited Review:

| Occupancy/Property Type | Maximum LTV, CLTV, and HCLTV Ratios |
|---|---|
| Principal Residence | 75/90/90% |
| Second Home | 70/75/75% |
| Investor | Ineligible for Limited Review |

Attached units in established condo projects **outside of Florida**, including 2- to 4- unit condo projects, allow the following LTV, CLTV, and HCLTV ratios when using Limited Review:

| **Occupancy/Property Type** | Maximum LTV, CLTV, and HCLTV Ratios |
|---|---|
| Principal Residence | 90% |
| Second Home | 75% |
| Investor | Ineligible for Limited Review |

Fannie Mae provides two optional condo project eligibility questionnaires:

- Condominium Project Questionnaire – Full Form (Form 1076) for Full Review: https://www.fanniemae.com/content/guide_form/1076.pdf
- Condominium Project Questionnaire – Short Form (Form 1077) for Limited Review: https://www.fanniemae.com/content/guide_form/1077.pdf

Waiver of Project Eligibility Review for FNMA to FNMA Limited Cash-Out Refinances (B4-2.1-01) (SEL 2017-04)
Project eligibility review is waived for all Fannie Mae-owned loans that are being refinanced as a limited cash-out refinance with the following conditions. Underwriter must confirm that:

- The loan-to-value (LTV) ratio is no higher than 80% (CLTV or HCLTV ratios may be higher);
- The project has the required project-related property and flood insurance coverage; and
- The project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project.

Ineligible

- Vacant land or land development properties
- Properties that are not readily accessible by roads that meet local standards
- Properties that are not suitable for year-round occupancy regardless of location
- Agricultural properties, such as farms, ranches or orchards
- On-frame modular construction
- Condo hotels or co-op hotels
- Co-op share loans
- Boarding houses or bed and breakfast properties
- 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
- Properties on which Cannabis (aka marijuana) is grown, stored, or dispensed regardless of state laws.

Resale Restrictions / Deed Restrictions (B5-5.3-02)
FNMA allows certain age-related and affordability-related resale restrictions.
Those restrictions must meet FNMA requirements.
Resale restrictions may affect the calculation of LTV ratios and appraisal requirements (B5-5.3-03)
**All resale restrictions, including the above, must be prior approved by LSM (case-by-case).**

<table>
<tr><td><b>Qualifying Rate and Ratios</b></td><td>Qualifying Rate
<ul><li>Fixed Rate - Qualify at note rate. See <i>Eligibility Matrix Loan Amount & LTV Limitations</i> for minimum credit score</li></ul>
Ratios
<ul><li>DU Approve Eligible loans – Ratios evaluated by DU with a limit of 50%
<ul><li>If the DTI exceeds 50% the loan casefile will receive an Ineligible recommendation</li></ul></li></ul></td></tr>
<tr><td><b>Secondary Financing</b></td><td>Secondary financing is eligible and requirements are as follows.
<table>
<tr><th>Refi includes 1<sup>st</sup> lien payoff</th><th>Underwrite transaction as</th><th>Comments</th></tr>
<tr><td>Payoff of purchase money 2<sup>nd</sup> no cash out</td><td>Limited cash-out refi</td><td>N/A</td></tr>
<tr><td>Payoff of non-purchase money 2<sup>nd</sup>, regardless of cash out being taken</td><td>Cash-out refinance</td><td>N/A.</td></tr>
<tr><td>Payoff of 1<sup>st</sup> 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><ul><li>Subordinate financing must be factored into risk assessment based on CLTV, HCLTV, and DTI ratio.</li><li>Subordinate lien must be resubordinated.</li></ul></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>
NOTE: Subordinate financing left in place will not affect the type of refinance transaction used.<br><br>
<u>Community Seconds are allowed with LSM approval (subject to additional restrictions)</u><br>
DU will continue to allow CLTV ratios of 105% when the subordinate financing is a Community Seconds mortgage.<br><br>
Community Seconds are only allowed for Principal Residences. For 2-4 unit primary residence the borrower must make a 5% minimum contribution from borrower’s own funds. After the minimum borrower contribution has been met, a community second can be used to supplement the down payment and closing costs. (See B5-5.1-02)<br><br>
See <u>FNMA B2-1.1-04 <i>Subordinate Financing</i></u> for acceptable and unacceptable subordinate financing types.</td></tr>
<tr><td><b>Special Feature Codes</b></td><td>Refer to the DU Findings to identify the applicable Special Feature code number.<br>
Fannie Mae Special Feature Codes: https://www.fanniemae.com/content/list/special-feature-codes.pdf</td></tr>
<tr><td><b>Student Loan Cash-out Refinance</b></td><td>(B2-1.2-03) (SEL 2017-04)<br>
This feature allows the borrower to pay off student loan debt using existing home equity. The loan level price adjustment that applies to cash-out refinance transactions is waived when all requirements are met. This feature combines elements of both a cash-out refinance and a rate/term refinance.
<table>
<tr><td colspan="3">Student Loan Cash-out Refinance Features</td></tr>
<tr><td>Student Loans Eligible for Payoff</td><td><ul><li>At least one student loan must be paid off. Loan proceeds must be paid directly to the student loan servicer at closing.</li><li>Only student loans for which the borrower is personally obligated can be paid through the transaction.</li><li>Student loan debt must be paid in full with the proceeds—partial payments of student loan debt are not permitted.</li></ul></td><td>New Policy</td></tr>
<tr><td>Eligibility</td><td>Standard cash-out refinance LTV, CLTV, and HCLTV ratios apply</td><td>Aligns with c/o refi</td></tr>
<tr><td>Underwriting Method</td><td>DU only</td><td>New policy</td></tr>
<tr><td>Maximum Cash Back</td><td>Lesser of 2% or $2k (over and above the student loan payoff)</td><td>Aligns with r/t refi</td></tr>
<tr><td>Mortgage Payoff</td><td>1<sup>st</sup> mortgage and purchase money seconds</td><td>Aligns with r/t refi</td></tr>
<tr><td>Other Requirements</td><td><ul><li>Property cannot be listed for sale at time of disbursement</li><li>Payoff of taxes ineligible unless escrow account is established</li><li>Payoff of delinquent taxes ineligible</li></ul></td><td>Aligns with r/t refi</td></tr>
</table>
Lenders must deliver Special Feature Code (SFC) 841, <i>Student Loan Cash-Out Refinance</i>.</td></tr>
<tr><td><b>Temporary Buydown</b></td><td>Ineligible</td></tr>
<tr><td><b>Underwriting</b></td><td>DU Approve/Eligible
<ul><li>4506T must be processed prior to closing.</li></ul>
<u>Limits on the Number of Financed Properties</u><br>
If the mortgage is secured by the borrower’s principal residence, there are no limitations on the number of other</td></tr>
</table>

properties that the borrower will have financed. If the mortgage is secured by a second home or an investment property, the multiple financed properties policy applies.

The financed property limit

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

The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property:

- Commercial real estate,
- Multifamily property consisting of more than four units,
- Ownership in a timeshare,
- Ownership of a vacant lot (residential or commercial), or
- Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).

Applying the Multiple Financed Property Policy to DU Loan Casefiles (effective with DU Version 10.0)

If the borrower is financing a second home or investment property, the maximum number of financed properties the borrower can have is ten. If the borrower will have one to six financed properties, Fannie Mae's standard eligibility policies apply (e.g., LTV ratios and minimum credit scores). If the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720; all other standard eligibility policies apply.

DU will determine the number of financed properties for the loan casefile based on the following approach:

- If the number of financed properties field is completed, DU will use that as the number of financed properties. The underwriter must complete this field with the number of financed one-to four-unit residential properties (including the subject transaction) for which the borrower(s) are personally obligated.
- If the number of financed properties field is not provided, DU will use the number of residential properties in the Real Estate Owned (REO) section that include a mortgage payment, or that are associated with a mortgage or HELOC in the liabilities section of the loan application, as the number of financed properties.
- If the number of financed properties field and the REO information was not provided, DU will use the number of mortgages and HELOCs disclosed in the liabilities section of the loan application as the number of financed properties.
- When none of the information above is provided on the loan application, DU will use the number of mortgages and HELOCs disclosed on the credit report as the number of financed properties.

Note: In order to account for the subject property, DU will add "1" to the number of financed properties on purchase and construction transactions when the REO section, number of mortgages on the application, or number of mortgages on the credit report are used as the number of financed properties.

Payoff or Paydown of Debt for Qualification (*B3-6-07 and SEL-2015-06)*

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

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
- If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

DU currently issues a message that revolving debts must be included in the total expense payment if the account is not being closed. Lenders may disregard this message until it is removed in a DU release later in 2015.

**Adult children purchasing a primary residence for elderly parents**

- Elderly parents must be unable to work or not have sufficient income to qualify for a mortgage on their own. The adult child must provide a letter of explanation outlining the intent to purchase a home for elderly parents who are financially limited
- The parent(s) will occupy the subject property as their primary residence
- The adult child may already own his or her own primary residence and there is no distance requirement on where the primary residence is located
- Property must be underwritten and priced as a primary residence (1-unit only)
- The subject property must be submitted to DU as the primary residence and the borrower's current primary residence will be listed as other real estate owned
- The parent(s) and adult child can both apply for the loan, but the child is the primary source of qualification. The parent is not required to be on the loan.

- Title must be in the borrower(s) name, but the elderly parent(s) may also be on the title

**Parents purchasing a primary residence for a disabled son or daughter**

- Disabled adult child must be unable to work or not have sufficient income to qualify for a mortgage on his or her own. The parent(s) must provide a letter of explanation outlining the intent to purchase a home for their physically handicapped or developmentally disabled adult child who is financially limited
- Disabled adult child will occupy the subject property as his or her primary residence
- Parent(s) may already own their own primary residence and there is no distance requirement on where the primary residence is located
- Property must be underwritten and priced as a primary residence (1-unit only)
- The subject property must be submitted to DU as the primary residence and the borrower's current primary residence will be listed as other real estate owned
- The parent(s) and disabled adult child can both apply for the loan, but the parent(s) are the primary source of qualification. The disabled adult child is not required to be on the loan
- Title must be in the borrower(s) name, but the disabled adult child may also be on the title

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 FNMA requirement.

Other underwriting flexibilities:

- First-time Home Buyer is allowed
- Foreign Income is allowed per FNMA guidelines(B3-3.1-09)
- Corporate Relocation Plans (fully documented per FNMA) are allowed – When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, the underwriter must obtain a copy of the executed buyout agreement to document the source of funds. A copy of sales contract or a listing agreement is not an acceptable source of verification of proceeds from the sale. (Note: Restricted Relocation Mortgages which are mortgages made under express agreement between employer and lender are not allowed.)

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
- Note: There is never an exception for High Balance loans. High Balance loans must always be underwritten with DU per FNMA guidelines (B5-1-01).