COMMUNITY WHOLESALE LENDING

Conforming Fixed Rate Products – Full Documentation

DU Version 10.3

All loans must be locked prior to submission to underwriting

DU-PRIMARY RESIDENCE					LPA-PRIMARY RESIDENCE[2]				
Units	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**	**Units**	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**
Purchase and Rate & Term Refinance									
1	97%[1]	97%[1]	97%[1]	620	1	95%	95%	95%	620
1	95%	95%	95%	620	2	85%	85%	85%	620
2	85%	85%	85%	620	3-4	80%	80%	80%	620
3-4	75%	75%	75%	620					
Cash Out Refinance[4,5]									
1	80%	80%	80%	620	1	80%	80%	80%	620
2-4	75%	75%	75%	620	2-4	75%	75%	75%	620
DU-SECOND HOME					**LPA-SECOND HOME[2]**				
Units	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**	**Units**	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**
Purchase and Rate & Term Refinance									
1	90%[3]	90%	90%	620	1	90%	90%	90%	620
Cash Out Refinance[4,5]									
1	75%	75%	75%	620	1	75%	75%	75%	620
DU-INVESTMENT PROPERTIES					**LPA-INVESTMENT PROPERTIES[2]**				
Units	**LTV**	**CLTV**	**Max HCLTV**	**Credit Score**	**Units**	**LTV**	**CLTV**	**HCLTV**	**Credit Score**
Purchase									
1	85%[3]	85%	85%	620	1	85%[3]	85%	85%	620
2-4	75%	75%	75%	620	2-4	75%	75%	75%	620
Rate & Term Refinance									
1-4	75%	75%	75%	620	1	85%[3]	85%	85%	620
					2-4	75%	75%	75%	620
Cash Out Refinance[4,5]									
1	75%	75%	75%	620	1	75%	75%	75%	620
2-4	70%	70%	70%	620	2-4	70%	70%	70%	620

[1]DU-LTV 95.01-97%

- Max 105% CLTV if the subordinate lien is a Community Second
- For purchase transactions, at least one borrower must be a first time home buyer. For limited cash-out refinances, Fannie Mae must be the owner of the existing mortgage.
- Homebuyer Education is required when all borrowers are first-time homebuyers.

[2]LPA LOANS

- LPA Accept Findings only

3 LTV > 80% subject to MI requirements

4 Cash out Refinance - LPA

- Existing First Mortgage must be seasoned at least 12 months (time between the Note Date of exiting mortgage and Note Date of the cash out mortgage
- Does not apply when the existing mortgage is a HELOC or if existing is special purpose cash out mortgage under Section 4301.6 of Freddie Mac selling guide
- LPA will return feedback messages

5 Cash out Refinance – DU

- Existing First Mortgage must be seasoned at least 12 months (time between the Note Date of exiting mortgage and Note Date of the cash out mortgage
- This requirement does not apply:
  - to any existing subordinate liens being paid off through the transaction, or
  - when buying out a co-owner pursuant to a legal agreement.
- At least one borrower must have been on title for at least for six months prior to the disbursement date of the new loan.
- For DU loan casefiles, if the DTI ratio exceeds 45%, six months reserves is required.

2023 Loan Limits	
Units	**Standard**
1	**$726,200**
2	**$929,850**
3	**$1,123,900**
4	**$1,396,800**
Use this link to determine geographic eligibility and maximum loan amount. Note: Minimum loan amount is $100k. Loan amounts < $100k allowed on exception only basis.	

High Balance Fixed - DU Approve/Eligible Only

PRIMARY RESIDENCE				
Units	**LTV**	**CLTV**	**Maximum HCLTV**	**Credit Score**
Purchase and Rate & Term Refinance				
1	95%[1]	95%	95%	620
2	85%[1]	85%	85%	
3 - 4	75%	75%	75%	
Cash Out Refinance[5]				
1	80%	80%	80%	620
2 - 4	75%	75%	75%	
SECOND HOME				
Purchase and Rate & Term Refinance				
1	90%[1]	90%	90%	620
Cash-Out Refinance[5]				
1	75%	75%	75%	620
INVESTMENT PROPERTIES				
Purchase				
1	85%[1]	85%	85%	620
2 - 4	75%	75%	75%	
Rate & Term Refinance				
1 - 4	75%	75%	75%	620
Cash-Out Refinance[5]				
1	75%	75%	75%	620
2 - 4	70%	70%	70%	

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

[5] Cash out Refinance – DU

- Existing First Mortgage must be seasoned at least 12 months (time between the Note Date of exiting mortgage and Note Date of the cash out mortgage
- This requirement does not apply:
  - to any existing subordinate liens being paid off through the transaction, or
  - when buying out a co-owner pursuant to a legal agreement.
- At least one borrower must have been on title for at least for six months prior to the disbursement date of the new loan.

For DU casefiles, if the DTI Ratio exceeds 45%, six months reserves is required

2023 High Balance Loan Amounts		
	Minimum Loan Amount	**Maximum Loan Amount**
1	**$726,200**	**$1,089,300**
2	**$929,850**	**$1,394,775**
3	**$1,123,900**	**$1,985,850**
4	**$1,396,800**	**$2,095,200**
Use this link to determine geographic eligibility and maximum loan amount		

Super Conforming Fixed Products – LPA Only

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

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

[4] Cash out Refinance - LPA

- Existing First Mortgage must be seasoned at least 12 months (time between the Note Date of exiting mortgage and Note Date of the cash out mortgage
- Does not apply when the existing mortgage is a HELOC or if existing is special purpose cash out mortgage under Section 4301.6 of Freddie Mac selling guide
- LPA will return feedback messages

2023 High Balance Loan Amounts		
	Minimum Loan Amount	**Maximum Loan Amount**
1	**$726,200**	**$1,089,300**
2	**$929,850**	**$1,394,775**
3	**$1,123,900**	**$1,985,850**
4	**$1,396,800**	**$2,095,200**
Use this link to determine geographic eligibility and maximum loan amount		

General Information	
Mortgage Insurance	Required on all loans exceeding an 80% LTV • Borrower Paid Financed – must qualify for QM. (Must also meet financed guidelines below) • Borrower Paid Single Premium MI Option • Monthly • Reduced MI – DU must reflect option is eligible. Pricing adjustment will apply. • Lender Paid MI • Split Premium MI o Upfront portion may be financed if: ▪ DU only ▪ The upfront portion is included in the loan amount ▪ The loan amount, including the financed mortgage insurance premium, does not exceed the maximum loan limit ▪ The loan purpose is purchase or limited cash-out refinance ▪ The subject property is a 1 unit primary residence or second home ▪ The MI coverage amount is determined based on the base LTV ratio (the LTV ratio calculated without the financed premium; however, in no instance can the maximum LTV be exceeded with the financed premium).

	Acceptable Mortgage Insurance Companies:
	• MGIC (http://www.mgic.com)
	• Genworth (www.mortgageinsurance.genworth.com)
	• Essent Guaranty (http://essent.us)
	• National MI (www.nationalmi.com).
	  ○ DTI > 45% requires minimum 700 FICO Score (does not apply if using National's Rate GPS)
	• Radian (http://www.radian.biz/page?name=HomePage)
	  ○ Single Premium MI: DTI > 45% requires minimum 700 FICO Score. Single premium MI is also not available when LTV > 95% and DTI > 45% regardless of fico score. (Restrictions do not apply if using Radian's RADAR Rates Single Premium Borrower-Paid pricing option).

QM Requirements	• All loans need to be locked prior to being submitted to Underwriting.
Supporting Documentation	• All supporting documentation must be dated within 120 days of the Note Date (existing and new construction)
Borrower Eligibility	

Borrower Eligibility	**Maximum of 4 borrowers**
	• U. S. Citizens
	• Permanent Resident
	  ○ Provide Alien Registration Card (USCIS Form I-551)
	• Non-U.S. Citizen (including DACA recipient – eligible with DU only)
	  ○ Must be a legal resident as evidenced by a social security number; and
	  ○ Have current, verified status, which may be documented by a valid employment authorization document (EAD), or other documentation showing immigration status is current (i.e., Green Card, work visa, etc.)
	  ○ Borrower must be employed in the U.S. and provide a copy of valid work permit.
	    ▪ Must be holding H1, H1B, or L1 visa classifications and the visa is valid for at least 90 days from the funding date. The name of the employer sponsoring the visa must appear on the visa documentation.
	  ○ Tax Identification Number (TIN) is not acceptable.
	• Inter-Vivos Revocable (Living) Trust (Eligibility Approved by Underwriter. UW must complete and certify Trust Review Checklist)
	
	Ineligible Borrowers
	• Foreign Nationals
	• Trailing income borrowers

Co-Borrowers
 	
Co-Borrowers (cont.)
	<u>Non-Occupant Co-Borrowers</u>
	May not be an interested party to the sales transaction.
	• Maximum LTV 95% - with DU or LPA approval only.
	  ○ No minimum borrower contribution required
	  ○ DU - the maximum LTV/CLTV/HCLTV may not exceed 95% unless a Community Seconds is part of the transaction, in which case the CLTV may not exceed 105%.
	  ○ Non-occupying co-borrower's current housing expense must be verified (i.e., VOR, VOM, canceled checks).

Flood Insurance	• For loans that require flood insurance, the flood insurance must be escrowed and may not be waived regardless of LTV. • Satisfactory evidence of escrowed flood insurance is required prior to close. • For premiums that are paid by a condominium association, homeowner's association or other group, escrows are not required.
Higher Priced Mortgage Loans (HPML)	QM Higher Priced Mortgage Loans • Must follow guidelines stated in the **Rebuttable Presumption** Section below ○ Appraisal waivers are ineligible for HPML. Section 35 Higher Priced Mortgage Loans • Must follow guidelines stated in the **Rebuttable Presumption** Section below; and • Escrow account must be established and maintained for at least five (5) years; and Master Insurance Policy Exemption: Insurance premiums are exempt for units in a condominium or PUD when the unit's property is covered by a master insurance policy.
Homeownership Education	At least one borrower must complete homebuyer education for the following transactions: • If all borrowers on the loan are relying solely on nontraditional credit to qualify, regardless of the loan product or whether the borrowers are first-time home buyers; • Purchase transactions with LTV/CLTV/HCLTV ratios greater than 95% when all borrowers are first-time homebuyers.
Power of Attorney	• For requirements refer to Power of Attorney Job Aid.
Rebuttable Presumption	If the APR is 1.5 percentage points or more higher than the APOR the loan has a Rebuttable Presumption of Compliance with ATR and will require borrower to provide Fully Executed Budget Letter and meet Residual Income Requirements. Refer to General QM Final Rule Job Aid for specific requirements.

<table>
<tr><td>Real Estate Owned (REO)</td><td>

<u>Maximum # of Properties Financed</u>

DU - See Multiple Financed Properties (DU) Section below
LPA – See Multiple Financed Properties (LPA) Section below.

<u>Investment Properties – Hazard Insurance Requirements</u>
Rent Loss Insurance with minimum 6 months coverage is required. Rent loss insurance may be waived when:

Rental income from the subject property is not used for qualifying, AND
PITI and operating expense for the subject is included in the borrower's qualifying ratios.

<u>Borrower Vacating Current Residence</u>
When borrowers are vacating their current residence the following guidelines must be met accordingly
<table>
<tr><th>DU/LPA</th></tr>
<tr><td>Follow DU/LPA for partial or no rental history when converting current residence into investment property. Reserve requirements may still apply. Refer to Reserve Section.</td></tr>
</table>

<u>Principal Residence Pending Sale</u>

<u>DU</u>
If the borrower's current residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new loan.
However, Fannie Mae will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:

The executed, non-contingent sales contract for the current residence; AND
Executed, contingent sales contract and confirmation that any financing contingencies have been met.

<u>LPA</u>

Qualify using both mortgage payments
Reserve requirements:

6 months liquid PITI for <u>both properties</u> in reserves OR
2 months reserves (PITI) with 30% equity in the existing principal residence for <u>each</u> property.

Will not require the current principal residence's (PITI) to be used if the borrower has the above reserve requirements and the following is provided:

The executed, non-contingent sales contract for the current residence; AND
Executed, contingent sales contract and confirmation that any financing contingencies have been met.

</td></tr>
<tr><th colspan="2">Financing Types</th></tr>
<tr><td>Multiple Financed Properties (DU)</td><td>

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

1-6 Financed Properties:

Standard ML Mortgage eligibility guidelines apply (i.e., LTV, minimum credit scores, etc.)

7-10 Financed Properties:

Minimum 720 Fico Score. All other ML Mortgage standard eligibility guidelines apply
Manual Underwrite not allowed

Financed property limit:

applies to the number of one- to four-unit residential properties where the borrower is personally obligated on the mortgage(s), even if the monthly housing expense is excluded from the borrower's DTI;
applies to the total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to Fannie Mae; includes the borrower's principal residence, if financed; and
is cumulative for all borrowers (though jointly financed properties are only counted once).

<table>
<tr><th>Type of Property Ownership</th><th>Counted in Financed Properties</th></tr>
<tr><td>Commercial Real Estate</td><td>No</td></tr>
<tr><td>Multifamily property consisting of more than four units</td><td>No</td></tr>
<tr><td>Ownership in a timeshare</td><td>No</td></tr>
<tr><td>Ownership of a vacant lot (residential or Commercial),</td><td>No</td></tr>
<tr><td>Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on home)</td><td>No</td></tr>
<tr><td>The borrower is personally obligated on mortgages securing two investment properties and the co-borrower is personally obligated on mortgages securing three other investment properties, and they are jointly obligated on their principal</td><td>Yes</td></tr>
</table>
</td></tr>
</table>

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

Reserve Requirements - See Reserve Requirement section below

Multiple Financed Properties (LPA)

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

1-6 Financed Properties:

- Standard ML Mortgage eligibility guidelines apply (i.e., LTV, minimum credit scores, etc.)

7-10 Financed Properties:

- LPA Accept required
- Minimum 720 Fico Score
- Reserve Requirements - See Reserve Section below for requirements
- All other ML Mortgage standard eligibility guidelines apply

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

Non-Arm's Length Transactions

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

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

Principal Curtailment

DU

A principal curtailment (principal reduction) is allowed for the following reasons:

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

Principal Curtailment (cont.)	If the curtailment is made at the time of closing, the amount must be clearly documented on the settlement statement. If the curtailment is applied after closing, but before delivery, the mortgage loan file must be documented with the amount of the curtailment and the reason or source of the curtailment (i.e., lender refund or borrower). **<u>LPA</u>** The borrower may receive cash back, or a principal curtailment may be made, on purchase transactions only as a result of the following: • Reimbursement for the overpayment of costs, fees and charges paid by the borrower in connection with the purchase transaction. Examples include, but are not limited to, an earnest money deposit exceeding the required down payment amount, a fee paid at loan application that is covered by a financing concession at loan closing, a closing cost that is reduced after closing, or gift fund given at loan closing and exceeding the amount needed for closing. • In jurisdictions where real estate taxes are paid in arrears, receipt of funds from the property seller for real estate taxes that cover a period to the Note Date. • Refunds mandated by federal laws or regulations. The minimum borrower contribution, if applicable, must be met at closing. If the projected cash back, as described above, results in the borrower not meeting the minimum borrower contribution at closing, the excess amount of the cash back must be applied as a principal curtailment. Any cash back or principal curtailment, as described above, must be reflected on the Settlement /Closing Disclosure Statement. In instances of reimbursement for the overpayment of costs, fees and charges, and/or refunds mandated by federal law or regulations, the mortgage file must include documentation supporting the amount and the reason for the reimbursement and/or refund.

Refinance	**DU - Continuity of Obligation**
	• Follow applicable requirements below.
	    o Rate and Term: at least 1 Borrower on title prior to application date is eligible.
	        ▪ Exceptions to this policy are permitted in the following scenarios:
	            • The borrower acquired the property through an inheritance or was legally awarded the property via a legal settlement or divorce decree OR
	            • The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust
	    o Cash Out: Borrower on title for 12 months.
	
	LPA - General Requirements for all Refinance Mortgages
	When an existing Mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met:
	• At least one Borrower on the refinance Mortgage was a Borrower on the Mortgage being refinanced; or
	• At least one Borrower on the refinance Mortgage held title to and resided in the Mortgaged Premises as a Primary Residence for the most recent 12 month period and the Mortgage file contains documentation evidencing that the Borrower, either:
	    o Has been making timely Mortgage payments, including the payments for any secondary financing, for the most recent 12-month period; or
	    o Is a related Person to a Borrower on the Mortgage being refinanced; or
	• At least one Borrower on the refinance Mortgage inherited or was legally awarded the Mortgaged Premises (for example, in the case of divorce, separation or dissolution of a domestic partnership)
	
	<u>Limited Cash-out Refinance (Rate and Term)</u>
	• Properties that have been listed for sale must be taken off the market prior to disbursement date, and the borrower must provide written confirmation of their intent to occupy as their primary residence.
	• Pay off existing subordinate liens that were used in whole to acquire the subject property.
	• LTV is based off of current appraised value regardless of length of ownership.
	• Closing costs and prepaids may be included in the loan amount.
	• **DU:**
	    o Pay off of the existing first mortgage regardless of seasoning (including an existing HELOC in first-lien position)
	    o Pay deferred balance from a previous loss mitigation and late fees
	    o Permit proceeds to satisfy any shared appreciation per a shared appreciation agreement when the subordinate lien is a Community Second
	    o Cash out limited to the lesser of 2% of the new principal amount or $2000
	    o When the following conditions exist, the transaction is ineligible as a limited cash-out refinance and must be treated as a cash-out refinance:
	        ▪ No outstanding first lien on the subject property (except for single-closing construction-to-permanent transactions, which are eligible as a limited cash-out refinance even though there is not an outstanding lien on the subject property);
	        ▪ The proceeds are used to pay off a subordinate lien that was not used to purchase the property (other than the exceptions for paying off PACE loans as described under <u>HomeStyle Energy Mortgages</u> below;

Refinance (cont.)

- The borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount; and
- 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.

- **LPA:**
  - Pay off the first mortgage, regardless of age, used to acquire the property; or pay off a Property Assessed Clear Energy (PACE) or PACE-like obligations (subject to LPA PACE obligations below)
  - Pay off the first mortgage, originated as a refinance transaction, with a Note date no less than thirty days prior to the Note date of the no cash-out refinance, documented in the mortgage file (i.e., credit report or the title commitment);
  - Cash back up to the <u>greater</u> of 1% of the mortgage amount or $2,000

<u>HomeStyle Energy Mortgages</u>

For limited cash-out refinances, all outstanding PACE debt may be paid off up to the maximum allowable LTV for the transaction and occupancy type. The PACE loan must be paid off in full. Partial payoffs are not permitted.

- When a loan is originated as a limited cash-out refinance, the loan must meet all of the standard requirements for limited cash-out refinances. The LTV ratio is determined by dividing the original loan amount by the appraised value of the property.
  - All HomeStyle Energy loans require an appraisal based on an interior and exterior property inspection and must be completed on the appropriate form depending on the property type.
  - Proceeds may be used to pay off an existing PACE loan. The standard cash back allowance of the lesser of 2% of the loan amount of $2,000 is permitted on these loans.
  - The payoff amount of any existing PACE loan should <u>not</u> be included in line d. of the Details of Transaction.
  - Documentation in the file must show that the funds are used solely to pay off the PACE loan obtained for energy improvements on the subject property.

<u>LPA No-Cash Out Refinance when paying off PACE or PACE-like Obligations</u>

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

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

<u>Cash Out Refinance</u>

- The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
- Power of Attorney may not be used for cash out refinances
- Properties that have been listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan. Must provide cancelled listing.
- **LPA:** At least one borrower must have been on title to the subject property for at least 12 months prior to the Note Date, except as specified below:
  - For cases in which title to the property is held by a LLC or LP, the time the property was titled in the name of the LLC or LP may be included in the six-month requirement provided:
    - At least one borrower must have been a majority owner or had control of the LLC or LP since the date the property was acquired by the LLC or LP, and
    - Title must be transferred from the LLC or LP into the borrower's name prior to the Note date.
  - If none of the borrowers have been on title to the subject property for at least 6 months prior to the Note date, the following requirement(s) must be met:
    - At least one borrower on the refinance mortgage inherited or was legally awarded the subject property. (i.e. divorce, separation or dissolution of domestic partnership)

    OR, all of the following (for borrowers seeking delayed financing):
    - The Settlement/Closing Disclosure Statement from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosures Statement was not used for the purchase transaction.
    - The preliminary title report for the refinance transaction must reflect the borrower as the owner of the subject property and must reflect that there are no liens on the property.
    - The source of funds used to purchase the purchase the subject property must be fully documented.
    - If funds were borrowed to purchase the subject property:

Refinance (cont.)	• Cash-out proceeds must be used to pay off or pay down the borrowed funds, as reflected on the Settlement/Closing Disclosure Statement for the refinance transaction – • Additional cash-out is permitted only when all borrowed funds are paid in full, and • The payment on any remaining outstanding balance of the borrowed funds must be included in the DTI. ▪ The amount of the refinance mortgage must not exceed the sum of the original purchase price and related closing costs as documented by the Settlement/Closing Disclosure Statement for the purchase transaction, less any gift funds used to purchase the subject property. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement was not used for the purchase transaction. ▪ There must have been no affiliation or relationship between the buyer and seller of the purchase transaction. • **DU:** The property must have been purchased (or acquired) by at least one borrower no less than 12 months prior to the disbursement date of the new mortgage loan except for the following: o 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 domestic partnership). o The delayed financing requirements below are met. o If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's 12 month ownership requirement. In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s). o If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's 12 month ownership requirement if the borrower is the primary beneficiary of the trust. • **DU:** Cash-out refinance transactions with DTI > 45% must have at least 6 months reserves • **LP:** Reserves required per LP findings **<u>Student Loan Cash-Out Refinance</u>** This feature provides the opportunity for borrows to pay off one or more student loans through the refinance transaction. The loan-level price adjustment that applies to cash-out refinance transactions will be waived when all of the following requirements have been met:

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

<u>Delayed Financing</u>

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

- Not eligible for High Balance or Super Conforming.
- Must be locked as cash out

Refinance (cont.)	• The purchase transaction was an arms-length transaction.
	• The borrower may have initially purchased the property as one of the following
	  ○ A natural person;
	  ○ An eligible *inter vivos* revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
	  ○ An eligible land trust when the borrower is the beneficiary of the land trust; or
	  ○ An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%
	• The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and point on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for the cash-out transaction based on the current appraised value.)
	• The transaction is documented by the HUD-1, which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a HUD-1 if a HUD-1 was not provided to the purchaser at time of sale.
	• If the Source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the HUD-1 for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.
	  ○ Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
	• All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.
	• **LP:** See cash-out refinance section above for additional delayed financing requirements.
	
	<u>Texas Refinance 50(a)(6) (Cash-Out and No Cash-Out) and TX 50(f)(2)</u>
	When refinancing an existing Texas Section 50(a)(6) lien, borrowers have three options:
	• Texas Section 50(a)(6) cash-out refinance
	• Texas Section 50(a)(6) rate/tern refinance
	• Standard rate/term refinance – Texas Section 50(f)(2)
	
	For eligibility requirements, refer to Texas 50(a)(6) and 50(f)(2) Refinance Matrix for complete details.

Special Feature Code	• Underwriter to confirm <u>all</u> special feature codes are reflected on the 1008 delivery screen.
Credit	

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

Charge Offs	**Past-Due, Collection, and Charge-off of Non-Mortgage Accounts** Accounts that are reported as past due (not reported as collection accounts) must be brought current. • 1, 2-4 unit, principal residence, second homes and Investment properties: Borrowers are not required to pay off outstanding collections or non-mortgage charge-offs, regardless of the amount. ○ Note: Collection accounts marked as "Paid by Close" in the online loan application will received a message in the DU Underwriting Findings report stating that the collection must be paid. **Charge-off of a Mortgage Account** A charge-off of a mortgage account, including first liens, second liens, home improvement loans, HELOCs and manufactured home loans, occurs when a creditor has determined that there is little likelihood that the mortgage debt will be collected. When a charge-off of a mortgage account exists: • A 4 year waiting period from completion date as reported on the credit report or other documentation provided by the borrower is required.
Credit	**Refer to applicable product matrix for minimum credit score requirements** • Credit Report expires after 120 days (existing and new construction) • Tri Merge Credit Report must be ordered

Credit (cont.)

- DU - Minimum 1 FICO score required for each borrower.
  - If one (or more) borrower(s) has a fico score and at least one borrower does not have a fico score, the following requirements must be met:
    - The property must be a one-unit, principal residence, and all borrowers must occupy the property.
    - The transaction must be a purchase or rate/term refinance.
    - The loan amount must meet conforming loan limits. High balance is ineligible.
    - Reserves may be required as determined by DU.
    - If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, documentation of non-traditional credit history for the borrower(s) without a credit score is not required.
    - If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, documentation of non-traditional credit history for each borrower without a credit score is required.
    - Price adjustments may apply.
- LPA - LPA will determine if 1 FICO score is acceptable.
  - Mortgages where not all borrowers have a useable credit score, LPA will apply the following requirements:
    - At least one borrower on the transaction must have a usable credit score, as determined by LPA,
    - The transaction must be a purchase or rate/term refinance,
    - The property must be 1-unit and all borrowers must occupy the property as their primary residence.
    - In addition, if the borrower(s) without a usable credit score contributes 50% or more of the total monthly income, the following requirements must be met:
      - Each borrower without a usable credit score must have at least two payment references in the United States comprised of noncredit payment references and/or tradelines not appearing on the credit report. If two or more borrowers without a usable credit score have the same payment reference, then the payment reference may count for each of those borrowers. Additionally:
        - Each payment reference must have existed for at least the most recent 12 months
      - At least one borrower without a usable credit score must have a **housing payment history** as one of the payment references; and
        - In the event more than one borrower without a usable credit score has a housing payment history, then all such housing payment histories for the most recent 12 months (or length of housing payment history if less than 12 months) must be verified
        - All housing payment histories must have no 30-day or greater delinquencies in the most recent 12 months
      - For all payment reference **other than** housing:
        - Only one payment reference may have one 30-day delinquency in the most recent 12 months; and
        - All payment references may have no 60-day or greater delinquencies in the most recent 12 months
      - Each payment reference must meet Freddie Mac requirements for:
        - Written verifications,
        - Age of documentation, and
        - Documentation
      - Each borrower without a usable credit score must have no judgments, tax liens or collections (other than medical), filed in the most recent 24 months.

- Refreshed Credit Report is required within 5 business days of the Note date.
- Frozen Credit
  - If the borrower's credit information is frozen at one of the credit repositories for borrowers who have traditional credit, the credit report is still acceptable as longs as
    - Credit data is available from two repositories,
    - A credit score is obtained from at least one of those two repositories, and
    - A three in-file merged report was requested by ML Mortgage.
  - Note: Loans for borrowers with credit data frozen at two or more of the credit repositories will not be eligible.
- Documentation is required to verify that the borrower has sufficient funds to cover the unpaid balance of all 30-day charge accounts.
  - Example: American Express balance is paid monthly. Current balance is $1300. Borrower must provide evidence of funds to pay entire balance in addition to any regular reserve requirements and closing costs. The $1300 balance is not counted in the DTI ratios.
- Single payment Note (a loan that is due in one lump sum, including principal and interest):

Credit (cont.)	◦ At a minimum an interest only payment must be included in the debt ratio. Post-closing liquidity may not be used to offset payments. • Disputed Accounts – Approve/Eligible ◦ If AUS conditions for a disputed account, they must be resolved and re-scored prior to submission. • Garnishments ◦ All garnishments with more than ten months remaining must be included in the borrower's DTI ratios. • Judgments and liens must be paid off and released at or prior to closing. • If paying off a revolving account to qualify prior to or at close of escrow, account must be paid to zero ($0) in order to not count in debt ratio. ◦ Paying down credit to qualify is not eligible. ◦ Funds to pay account in full must be verified in file. • **DU -** Authorized User Accounts – Approve/Eligible ◦ When ensuring tradelines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only a few accounts of his/her own, the lender should establish: ▪ The relationship of the borrower to the owner of the account, ▪ If the borrower uses the account, and ▪ If the borrower makes the payments on the account. ◦ If the authorized user tradeline belongs to another borrower on the mortgage loan, no additional investigation is needed. If the borrower has several tradelines in good standing and only a minor number of authorized user accounts, ML Mortgage could make the determination that: ▪ The authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and ▪ The information reported on the credit report is an accurate reflection of the borrower's credit history. ◦ It is not required to review an authorized user tradeline that belongs to the borrower's spouse when the spouse is not on the mortgage transaction. ◦ **For example,** does the authorized user account reflect how the borrower pays their own accounts? (i.e., authorized user account is paid on time but the borrowers own accounts are not paid on time). In this case, it is not a true reflection of how the borrower pays their credit therefore, additional items are needed to support credit history or the authorize user account must be removed. If the borrower and authorized user's credit supports on-time payments, additional information is not required. • **DU -** Debts Paid by Others (Contingent Liability) ◦ When a borrower is obligated on a non-mortgage debt - but is not the party who is actually repaying the debt – the lender may exclude the monthly payment from the borrower's recurring monthly obligations. This applies whether or not the other party is obligated on the debt but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement. ◦ When a borrower is obligated on a mortgage debt – but is not the party who is actually repaying the debt – the lender may exclude the monthly payment from the borrower's recurring monthly obligations if: ▪ The party making the payments is obligated on the mortgage debt, ▪ There are no delinquencies in the most recent 12 months, and ▪ The borrower is not using rental income from the applicable property to qualify. ◦ In order to exclude contingent liabilities (non-mortgage or mortgage debts) from the borrower's DTI ratio, the lender must obtain: ▪ Most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments. • If any delinquent payments in the most recent 12 months are made debt must be included in the ratios regardless of number of cancelled checks provided. ▪ When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties. • **LPA –** Debts Paid by Others (Contingent Liability) ◦ A non-mortgage debt i.e. installment (other than mortgages), revolving, monthly lease payment, may be excluded from the DTI when the following requirements are met: ▪ A party other than the borrower has been making timely payments for the most recent 12 months (regardless of whether the party is obligated on the debt) ▪ The party making the payments is not an interested party to the subject property or mortgage transaction. ◦ A mortgage debt may be excluded from the DTI when the following requirements are met: ▪ A party other than the borrower has been making timely payments for the most recent 12 months, ▪ The party making the payments is obligated on the Note for the mortgage that is being excluded,

Credit (cont.)	▪ The party making the payments is not an interested party to the subject property or mortgage transaction. • **LPA –** Authorized User Accounts o LPA will return a feedback message indicating when the following requirements must be met: ▪ The mortgage file must contain documentation evidencing that for each authorized user account: • Another borrower on the mortgage owns the tradeline in question, or • The tradeline is owned by the borrower's spouse, or • The borrower has been making the payments on the account for the last 12 months **OR** • If unable to document one of the above requirements for each authorized user accounts, the underwriter may make the determination that the authorized user accounts have an insignificant impact on the borrower's overall credit history and the information on the credit report is representative of the borrower's own credit reputation. The underwriter should base its determination on the number of the borrower's own tradelines, as well as their age, type, size and the payment history, as compared to the authorized user accounts. Documentation of the determination must be in the file. ▪ If unable to document any of the above four requirements when the feedback message is returned, the loan is not eligible as the LPA decision must be considered invalid. • DU - Alimony/Child Support/Separate Maintenance Payments o When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement – and those payments must continue to be made for more than ten months – the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. ▪ For alimony obligations, the lender has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If this option is exercised, a copy of the divorce decree, separation agreement, court order or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file. ▪ For alimony obligations, the lender has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. • **Note:** For loan casefiles underwritten through DU, when using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, under *Income Types*, enter the amount of the alimony obligation as a negative amount. If the borrower also receives alimony income, this amount should be combined with the amount of the alimony payment and entered as a net amount. • LPA **–** Alimony or maintenance payment with more than 10 months of payments remaining o In lieu of including these payments in the calculation of the debt, the payments must be deducted from the borrower's stable monthly income. The reduced stable monthly income must be used to qualify the borrower. • LPA **–** Child Support Payments – Child support payments with more than 10 months of payments remaining must be included in the borrowers DTI. • Business Debt in Borrowers Name o When a self-employed borrower claims that a monthly obligation that appears on his/her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business. ▪ The account payment does not need to be considered as part of the borrower's DTI ratio if: • the account in question does not have a history of delinquency, • the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and • the lender's cash flow analysis of the business took payment of the obligation into consideration. ▪ The account payment must be considered as part of the borrower's DTI ratio in any of the following situations: • If the business does not provide sufficient evidence that the obligation was paid out of company funds. • If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense – and taxes and insurance, if applicable – equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable

<table>
<tr><td>Credit (cont.)</td><td>
to assume that the obligation has not been account for in the cash flow analysis.
• If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that related to the account in question.
• Federal Income Tax Installment Agreements
○ When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the lender may include the monthly payment amount as part of the borrower’s DTI (in lieu of requiring payment in full) if:
▪ There is no indication that a Notice of Federal Tax Lien as been filed against the borrower in the county in which the subject property is located.
▪ The lender obtains the following documentation:
• An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
• Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.
</td></tr>
<tr><td>Foreclosure / Deed-in-Lieu / Pre-Foreclosure Sale/Prior Restructure</td><td>
<table>
<tr><th colspan="2">Foreclosure</th></tr>
<tr><td>DU</td><td>7 years - Seasoning requirement is defined as the date of event (as determined by credit report or other documented evidence) to disbursement date with re-established credit.
• If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied so long as appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy is provided. Must have evidence the borrower surrendered the home and did not reaffirm. If the borrower reaffirmed with intention to stay in the home the 7 year waiting period must met. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods will apply.

Note: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).</td></tr>
<tr><td>LPA</td><td>7 years seasoning from the completion date to application date with re-established credit. Foreclosure less than 7 years may be allowed only if LPA Approval is received. No exceptions.</td></tr>
</table>
<table>
<tr><th colspan="2">Prior Restructure (Loan Modification)</th></tr>
<tr><td>DU/LPA</td><td>Loans that have been previously restructured or modified must meet standard Housing payment history guidelines</td></tr>
</table>
<table>
<tr><th colspan="2">Pre-Foreclosure / Short Sale / Deed-in-Lieu of Foreclosure / Charge-Off of Mortgage Account</th></tr>
<tr><td>DU</td><td>4 years seasoning from completion to disbursement date. Maximum financing allowed.</td></tr>
<tr><td>LPA</td><td>4 years up to 7 years seasoning from completion date to application date. Maximum 90% LTV/CLTV/HCLTV.</td></tr>
</table>
</td></tr>
<tr><td>Housing Payment History</td><td>
• Max 0x60 days reported within 12 months prior to the credit report date.

Note: For purposes of complying with the housing payment history requirements, timeshare accounts identified as mortgage trade lines are not required to meet the requirements described above and are considered to be installment accounts.
</td></tr>
<tr><td>Qualifying Ratios</td><td>
• Determined by AUS
• DU: Cash-out refinance transactions with DTI > 45% must have at least 6 months reserves.

DTI Must Include:
• Lease Payments – regardless of time remaining on lease.
• Revolving accounts regardless of time remaining, unless account is paid to zero ($0) prior to or at closing.
• If payment is not shown, use 5% of outstanding balance
• Installment Debt (not secured by a financial asset – i.e., student, auto, personal loans and timeshares)
○ All installment debt with > 10 months remaining must be included in DTI, even if deferred.
○ Installment debt with less than 10 months should be considered in the DTI if it significantly affects the borrower’s ability to meet his/her credit obligations. For guidance on refer to Credit Section above.
• Use credit report payment for current HELOC payments
○ LPA – In the absence of a monthly payment on the credit report, and if there is no documentation in the mortgage file indicating a monthly payment amount, use 1.5% of the outstanding balance for the HELOC monthly payment amount. Note: Documentation of HELOC
</td></tr>
</table>

Qualifying Ratios (cont.)	terms, including the monthly payment amount, is required for HELOC's originated concurrently with the first lien mortgage.
	• **DU** - For all student loans, whether deferment, in forbearance, or in repayment (not deferred), must include a monthly payment in the borrower's recurring monthly debt obligation when qualifying the borrower.
	  ○ If a monthly payment is provided on the credit report, use that amount as the monthly payment for qualifying purposes.
	  ○ If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.
	  ○ If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below:
	    ▪ If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
	    ▪ For deferred loans or loans in forbearance, the lender may calculate:
	      • 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
	      • A fully amortizing payment using the documented loan repayment terms.
	• **LPA** – Student loans in repayment, deferment or forbearance
	  ○ If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or
	  ○ If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report.
	• **LPA** – Student loan forgiveness, cancelation, discharge and employment-contingent repayment programs
	  ○ The student loan payment may be excluded from the monthly DTI provided the file contains documentation that indicates the following:
	    ▪ The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, or
	    ▪ The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, at the end of the deferment or forbearance period **AND**
	    ▪ The borrower is eligible or approved, as applicable for the student loan forgiveness, cancelation, discharge or employment contingent repayment program, as applicable, and the lender is not aware of any circumstances that will make the borrower ineligible in the future. Evidence of eligibility of approval must come from the student loan program or the employer, as applicable.
	
	DTI Does Not Include:
	▪ Payments secured by a financial asset (i.e. 401k loan)

Income	

Employment / Income	Follow AUS findings for income documentation requirements
	• Refer to [Income Job Aid]() for income requirements when not found in these guidelines
	• For DU loans,
	  ○ When the co-borrower is self-employed and self-employed income is not used for qualification purposes that income will not need to be documented or evaluated for income or loss.
	  ○ The requirements for use of self-employment income when the borrower has less than a two-year history of self-employment include a requirement for the signed personal and business federal income tax returns to reflect a minimum of 12 months of self-employment income from the current business.
	  ○ To provide more transparency for this documentation policy, we updated the policy to allow one year of personal and business tax returns when
	    ▪ All self-employed businesses have been in existence for five years, and
	    ▪ The borrower has had a 25% or greater ownership interest for the last five consecutive years.
	• A verbal VOE is required for all borrowers within 10 days prior to Note date.
	• All loans require IRS Form 4506-C
	  ○ Form 4506-C must be processed per AUS
	  ○ For Business Form 4506-C, the underwriter will condition for signed 4506-C.
	
	Note: Income derived from an activity that is deemed illegal by federal or state law (for example, income derived from a business that is legal by state law but illegal by federal law cannot be considered).
	Trust Income
	Funds used from a trust for down payment, closing costs, or reserves must be subtracted from the total funds available to determine if the income meets the requirements of Continuity of Income;

	Note that continuity of income for trust income must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined. Income sources that are not listed below will require lender judgment to determine if documentation of continuance must be obtained. **Examples of income types with a defined expiration date** • alimony, child support, or separate maintenance • distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh • mortgage differential payments • notes receivable • public assistance • royalty payment income • Social Security (not including retirement or long-term disability) • VA benefits (not including retirement or long-term disability) **Note:** Because these income sources have a defined expiration date or allow the depletion of an asset, care must be taken when this is the sole source or the majority of qualifying income. Lenders must consider the borrower's continued capacity to repay the loan when the income source expires or the distributions will deplete the asset prior to maturation of the loan. ▪ Variable trust payments require a minimum 24-month history of receipt and must be documented with two years of tax returns. ▪ Fixed trust payments require a minimum 12-month history of receipt (unless certain conditions apply). If the borrower is unable to document a 12-month history, the trust documentation must reflect the following • The borrower is not the grantor of the trust, and • At least one payment must be received prior to loan closing. In either case, proof of current receipt of the income is required and must be documented with a current bank statement or equivalent documentation. When eligible employment-related assets are liquidated and placed in a trust within 12 months of the loan's application date, the lender must comply with the policies in Employment-Related Assets in the Income Job Aid **Employment Offers or contracts** When a borrower is scheduled to begin new employment under the terms of an employment offer or contract, the offer or contract cannot be for employment by a family member or interested party to the transaction. This requirement applies regardless of whether a paystub is obtained prior to loan delivery.
Assets	

Assets	• Follow AUS for required documentation (i.e. 2 months Bank Statement or VOD).
	  ○ **DU** Purchase transactions: The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter).
	  ○ **DU** Refinance transactions: The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter).
	• Retirement accounts use 60% of the current balance with evidence of terms of liquidation.
	• Stocks, Bonds, Mutual Funds use 70% of the current balance with evidence of terms of liquidation.
	
	Business Assets
	Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves when the borrower is self-employed and the individual Federal income tax returns have been evaluated, including, if applicable, the business Federal tax returns for that particular business (non-Schedule C). Additionally the following must be met.
	• The borrower must be listed as an owner of the account, and
	• The account must be verified, and
	• 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.

Assets (cont.)	**Evaluating Large Deposits** When bank statements (typically covering the most recent two months) are used, the underwriter must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Requirements for evaluating large deposits vary based on the transaction type, as shown on in the table below. **NOTE: If the deposit falls within 50% of the gross income an explanation is not required. If an explanation is obtained and the source per the explanation is cash the deposit must be backed out of the assets**.

Transaction	Evaluating Requirements
Refinance Transaction	Documentation or explanation for large deposits is not required; however, the underwriter remains responsible for ensuring that any borrowed funds, including any related liability, are considered in the total debt ratio.
Purchase Transaction	• If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the underwriter must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of 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 (DTI) and overall income and credit profile. Examples of acceptable documentation include. o The borrowers written explanation o Proof of ownership of an asset that was sold, or o A copy of a wedding invitation to support receipt of gift funds. • The underwriter must include these items in the file and document rationale for using the funds. • Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the underwriter must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When a reduced asset amount is used, net of the unsourced amount of large deposit, the reduced amount must be used for underwriting purposes. **Example 1:** Borrower has monthly income of $4000 and an account at ABC Bank with a balance of $20,000. A deposit of $3,000 is identified, but $2,500 of that deposit is documented as coming from the borrower's Federal tax refund. • Only the unsourced $500 must be considered in the calculation whether it meets the large deposit definition. • The unsourced $500 is 12.5% of the borrower's $4,000 monthly income, falling short of the 50% definition of large deposit. • Therefore, it is not considered a large deposit and the entire $20,000 balance in the ABC Bank account can be used for underwriting purposes. **Example 2:** Using the same borrower example, a deposit of $3,000 is identified, but only $500 is documented as coming from the borrower's Federal income tax refund, leaving $2,500 unsourced. • In this example, the unsourced $2,500 is 63% of the borrower's $4,000 monthly income, which does meet the definition of a large deposit. • The unsourced $2,500 must be subtracted from the account balance of $20,000 and only the remaining $17,500 may be used for the underwriting purposes. **<u>LPA</u>** In addition to the requirements listed above, when a VOD is used for purchase transactions, the lender must include documentation of the source of funds when an account is opened within 90 days of verification and/or when the current balance in an account exceeds the average balance by more than 50% of the sum of: • The total monthly qualifying income for the mortgage, and • The amount derived from the asset calculation for establishing the debt payment-to-income ratio in accordance with Freddie Mac Asset Qualification Sources, if applicable. For example, if the current balance reflected on the borrower's verification of deposit (VOD) form is $15,000 and the average balance is $12,000, the source of the $3,000 increase must be verified if the borrower's total monthly qualifying income is less than $6,000.

NOTE: if the source of a large deposit is readily identifiable on the account statement(s), such as direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the underwriter does not need to obtain further documentation.

However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed, additional documentation may be required.

<table>
<tr><td>Borrower Minimum Contribution / Gift Funds

Borrower Minimum Contribution / Gift Funds (cont.)</td><td>
DU

No minimum borrower investment from borrowers' own funds is required if:

1 Unit Primary Residence regardless of LTV/CLTV/HCLTV or
2-4 Unit Primary Residence/Second home <u><</u> 80%

LTV/CLTV/HCLTV >80%: 2-4 unit Primary Residence and Second Homes require 5% from borrowers' own funds.

LPA

No minimum borrower investment from borrowers' own funds is required if:

1 Unit Primary Residence regardless of LTV/CLTV/HCLTV

Second home > 80% LTV: Minimum 5% from borrower's own funds
Verification of sufficient funds to qualify for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves) are not required when the transaction is a refinance, and funds required to be paid by the borrower are $500 or less, and no reserves are required for the transaction by LPA.
Effective with loans originated on or after July 5, 2021: Prorated real estate tax credits contributed by the property seller in areas where real estate taxes are paid in arrears may not be considered when determining the funds required for the mortgage transaction.

Notes

Refer to <u>Non-Occupant Co-Borrower Section</u> for down payment requirements.
Investment Property 80.01-85% LTV – Refer to <u>Mortgage Insurance Section</u> for requirements

Gift funds

After the minimum borrower contribution is met, gifts can be used.
A gift can be provided by a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or a fiancé, fiancée, or domestic partner and from an estate of an acceptable donor or a trust established by an acceptable donor. Additionally, an acceptable donor who is also the seller of the subject property is eligible if they are not affiliated with another interested party to the transaction.
The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
Not permitted on Investment Properties
Gift of equity is acceptable for primary residence or second homes only after the minimum down payment has been made from the borrowers own funds (when required for the transaction). Gifts of equity can be used to fund all or part of the down payment and closing costs (including prepaid items) only. Cannot be used toward financial reserves. The donor must be a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or a fiancé, fiancée, or domestic partner. (Note: The donor of a gift of equity is not considered an interested party to the transaction).The gift must be reflected as a credit on the Settlement Statement labeled "Gift of Equity", and a fully completed, fully executed gift letter must be provided.
LP: A gift donor may pay the borrower's earnest money deposit (EMD) directly to the builder or real estate agent if evidence of the transfer of funds from the donor's account in a financial institution to the earnest money deposit holder is provided. All other gift fund requirements still apply.

Note: If the source of the EMD is gift, enter the EMD amount as gift funds in LPA, and not as EMD.

</td></tr>
<tr><td>Reserve Requirements Based on PITIA</td><td>
<table>
<tr><th colspan="2">DU (including High Balance)</th></tr>
<tr><th>Subject Property</th><th>Required Reserves</th></tr>
<tr><td>Primary Residence</td><td>Follow DU findings</td></tr>
</table>
Note: When the borrower owns multiple financed properties, DU is unable to determine the reserve requirements for the transaction. In these instances, a manual calculation will be required. To calculate, add the amount of the Total funds to be verified (as specified on the DU underwriting findings report) to the minimum reserve requirements specified below. The total amount of assets to be verified must be reflected in the asset section of the loan application.

Calculation of Reserves for Multiple Financed Properties
If the borrower owns other financed propertied, 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 mortgage and HELOC's on these other financed properties. The percentage is based on the number of financed properties.

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

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

Reserve Requirements Based on PITIA (cont.)	The aggregate UPB calculation does not include the mortgages and HELOCs that are on: • The subject property, • The borrower's principal residence, • Properties that are sold or pending sale, and • Accounts that will be paid by closing (or omitted in DU on the online loan application) **Simultaneous Second Home or Investment Property Transactions** If a lender is processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications. The following tables contain examples of reserve calculations for borrowers with multiple financed properties.

Example 1: Three Financed Properties
DU (including High Balance)

Occupancy	Outstanding UPB	Monthly PITIA	Reserve Calculation	
Subject – 2nd home	$78,750	$776	2 Months PITIA =	$1,552
Principal Residence	$0	$179	N/A	$0
Investment Property	$87,550	$787	$230,050 x 2% =	$4,601
Investment Property	$142,500	$905		
	$230,050		**Total =**	**$6,153**

Example 2: Six Financed Properties
DU (including High Balance)

Occupancy	Outstanding UPB	Monthly PITIA	Reserve Calculation	
Subject - Investment	$78,750	$776	6 Months PITIA =	$4,656
Principal Residence	$133,000	$946	N/A	$0
Investment Property	$87,550	$787	$345,030 x 4% =	$13,801
Investment Property	$142,500	$905		
Investment Property	$84,950	$722		
Investment Property	$30,030	$412		
	$345,030		**Total =**	**$18,457**

Example 3: Eight Financed Properties
DU (including High Balance)

Occupancy	Outstanding UPB	Monthly PITIA	Reserve Calculation	
Subject - Investment	$78,750	$776	6 Months PITIA =	$4,656
Principal Residence	$133,000	$946	N/A	$0
Investment Property	$87,550	$787	$629,530 x 6% =	$37,772
Investment Property	$142,500	$905		
Investment Property	$84,950	$722		
Investment Property	$30,030	$412		
Second Home	$124,500	$837		
Investment Property	$160,000	$1,283		
	$345,030		**Total =**	**$42,427**

LPA (including Super Conforming) - Minimum Required Reserves
LPA Approved loans – Follow LPA Findings Documentation of funds to close on refinance transactions will no longer be required under the following circumstances: • Required borrower funds are $500 or less, and • No reserves are required in accordance with LPA Feedback Certificate, and • The mortgage is a Loan Product Advisor Mortgage with a Risk Class of Accept. Note: LPA messaging will be updated by June 7, 2021 to reflect this change.

LPA Mortgages secured by second homes and investment properties require the following additional reserves:	
Number of Financed Properties	**Additional Required Reserves for Second Home or Investment Property Mortgages**

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

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

Reserve Requirements (Definition of PITIA)

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

Subordinate Financing (including DPA)

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

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

Seller Contributions (Limit is based on TLTV ratio)

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

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

Seller Contributions (Limit is based on TLTV ratio)

Sales Concessions / Interested Party Contributions (IPC)

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

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

Notes

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

LPA (effective with loans originated on or after July 5, 2021):

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

Property

Accessory Units

- Refer to Unpermitted Addition Job Aid for requirements.

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

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

Desktop appraisal

Appraisal Requirements	• Must be completed on the Desktop form (1004Desktop or Form70D
	• Less than or equal to 90% LTV
	  o Each Mortgage must have a loan-to-value (LTV) ratio less than or equal to 90%. For purposes of qualifying for a desktop appraisal, this LTV ratio is calculated using the sales price. Mortgages originated with a desktop appraisal with an LTV ratio higher than 90% as calculated using the value obtained from the desktop appraisal are acceptable if the loan amount does not increase and all other eligibility requirements are met, including the requirement that the LTV ratio calculated using the sales price is less than or equal to 90%. LTV ratios greater than 90% that occur as a result of loan amount changes require an upgrade to an interior and exterior inspection appraisal
	• One unit, primary occupancy, includes PUD, Must be option on AUS at CTC
	• No onsite interior/exterior inspection required
	• Must include a floor plan with interior wall and exterior dimensions in addition to a building sketch
	• Must be UAD compliant and be submitted through UCDP
	• Freddie Mac/LP/LPA
	  o Refinance mortgages and mortgages secured by mixed-use properties are not eligible for a desktop appraisal.
	  o Super conforming mortgages meeting eligibility may be originated with a desktop appraisal instead of an interior and exterior inspection.
	•
	
	Significant deferred maintenance and unsafe conditions; Condos and Co-ops:
	
	Loans secured by units in condo and co-op projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible for purchase. These projects will remain ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.
	
	Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
	▪ full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time;
	▪ the project has deficiencies, defects, substantial damage, or deferred maintenance that
	o is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
	o the improvements need substantial repairs and rehabilitation, including many major components; or
	o impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.
	
	Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or re-certifications are not eligible.
	
	These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property. Also, if damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated or damage from a small fire impacting the interior of a specific unit. However, if the subject property unit is affected, our standard requirements for property condition apply.
	
	Critical Repairs, effective for applications dated on or after 9-1-2023
	Loans secured by a condominium in a project with any unfunded repairs costing more than $10,000 per unit that should be undertaken within the next 12 months are not eligible. Does not include repairs made by the unit owner or repairs funded through a special assessment.
	Inspection Reports, effective for applications dated on or after 9-1-2023
	If a structural and/or mechanical inspection was completed within 3 years of the lender's project review date, the lender must obtain and review the inspection report. The report cannot indicate that any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.
	
	Special assessments: Condo and Co-op
	Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability.
	The lender must document the loan file with the following:
	▪ The reason for the special assessment;

Appraisal Requirements (cont.)	▪ The total amount assessed and repayment terms;
	▪ Documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and
	▪ Borrower qualification with any outstanding special assessment payment.
	
	The lender is expected to obtain the financial documents necessary to confirm the association has the ability to fund any repairs. If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed or the project is not eligible. Additionally, If the lender or appraiser is unable to determine that there is no adverse impact, the project is ineligible.
	
	Delinquent Special Assessments, effective for applications dated on or after 9-1-2023
	For Limited and Full Reviews - No more than 15% of the total units in a project are 60 days or more past due in the payment of each special assessment.
	
	Reserve Requirements: Condo and Co-op:
	
	Must meet current 10% budget reserve requirement
	FNMA & Freddie Mac:
	Regardless of review type, projects must comply with all policies described in the *Selling Guide*, B4-2.1-03, Ineligible Projects, including when completing a Limited Review or an appraisal waiver is used. Using an appraisal waiver does not exempt the lender from completing the required project review. Additionally, relying solely on the appraisal to complete a project review is not recommended. The appraisal often does not have sufficient information for a lender to determine whether the project meets our eligibility requirements.
	
	Appraisal transfers are allowed provided the following requirements are met:
	• A letter from the transferring lender to certify the appraisal was obtained in a manner consistent with all regulatory requirements is required. The letter must be completed as follows:
	  o Printed on the transferring lenders letterhead;
	  o Completed and signed by an authorized officer of the transferring lender (i.e., vice president, assistant vice president, etc.). Cannot be the loan officer, originator, processor, etc.;
	  o Include a certification from the transferring lender stating:
	    ▪ The transferring lender, Appraisal Management Company (AMC), appraiser selection and appraisal ordering process and policy, and the appraiser comply with all Fannie Mae or Freddie Mac Appraiser Independence Requirements (AIR) and the Dodd-Frank Wall Street Reform Act and Consumer Protection Act (collectively ‘regulatory requirements’);
	    ▪ Include borrower’s name and subject property address;
	    ▪ The appraiser was engaged directly by the transferring lender through its designated authorized AMC;
	    ▪ Neither the appraiser nor the AMC had direct, indirect or prospective interest, financial or otherwise, in the property or credit transaction;
	    ▪ Transferring Lender’s name appears on the appraisal as the transferring lender/client;
	  o The appraisal being transferred is the only appraisal ordered by the lender for this transaction;
	  o Statement to certify, represent and warrant that the appraisal is compliant with Uniform Standards of Professional Appraisal Practice (USPAP), state laws, federal laws or is an accurate representation of facts, data or conclusions.
	
	Desk Review
	• Only required upon request of Appraisal Underwriter.
	
	Age Restricted Properties
	• Appraiser to address marketability and impact on value for any resale restrictions
	• Must have comps with similar restrictions
	
	Super Conforming (LPA)
	• Condo appraisals must contain two comps from projects outside the subject’s project in addition to standard comparable sale requirements.

Appraisal Requirements (cont.)	Agricultural Use of Subject Property – Allowed subject to the following:
	• Property use must be primarily residential in nature,
	• Appraisal must reflect Single Family Residential as the highest and best use,
	• Farm income from subject must not be a significant source of income – max. 10% of total income, **and**
	• Farm income from subject property may not be used to qualify.
	
	Multiple Parcels with **single** APN (considered same as single parcel):
	• Parcels must be contiguous (adjoining)
	  o May be separated by a road provided the second parcel is not buildable
	  o Evidence that the second parcel is non-buildable is required
	  o Ex. Waterfront properties where the parcel without the residence provides access to the water.

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

Multiple Parcels with **multiple** APNs:

- Parcels must be contiguous (adjoining)
    - May be separated by a road provided the second parcel is not buildable
    - Evidence that the second parcel is non-buildable is required.
    - Ex. Waterfront properties where the parcel without the residence provides access to the water.
- Entire property may contain only one dwelling unit
    - Limited non-residential improvements (i.e., garage) acceptable
    - Improvement(s) built across lot lines is acceptable (ex. home built across both parcels with lot line running beneath the home)
- Each parcel must have the same basic zoning (i.e., residential)
- Each parcel must be conveyed in its entirety
    - Subject transaction Deed must contain a complete legal description of all parcels/lots and must specifically reference and describe each lot or parcel in its entirety
    - Subject transaction Mortgage must encumber all improvements and all parcels/lots

Note: If subject transaction is New Construction refer to Owner of Record in the Title Section of these guidelines.

Appraisal Waivers

DU Appraisal Waivers (formally known as property inspection waiver)	
An appraisal waiver may be received in your DU findings. When this occurs the borrower has an option to move forward and complete the transaction without obtaining an appraisal on the property provided the following requirements are met:	
Eligible Transactions	**Ineligible Transactions**

• Refinances: Provide evidence the property is not currently listed for sale
• DU Approve / Eligible only
• Fixed Rate (Conforming and High Balance)
• One-unit properties, including condominiums and PUDs
• Primary Residence, Second Home and Investment Properties*
• Purchase transactions
  o Primary Residences and Second Home
    ▪ Max 80% LTV/CLTV
• Rate and Term Refinance
  o Primary Residence and Second Home
    ▪ Max 90% LTV/CLTV
  o Investment Property*
    ▪ Max 75% LTV/CLTV
• Cash-Out Refinance
  o Primary Residence
    ▪ Max 70% LTV/CLTV
  o Second Home and Investment Property*
    ▪ Max 60% LTV/CLTV
• At time of application the loan officer must enter in the note pad that they intend to use the PIW
• Loan must be disclosed with full appraisal fee
• Property type must be accurate on the DU (changes may lose the waiver)
• Any assets submitted in DU must be verified in file (changes may lose the waiver)
• At time of underwriting the underwriter will validate that the DU findings allow for PIW and will mark the box for appraisal waiver form received date under Appraisal Tracking screen in LQB.
	• HPML loans
	• Properties listed in disaster area
	• Properties where the subject property value is $1,000,000 or greater
	• Leasehold properties
	• Cooperative units
	• Manufactured homes
	• Construction to perm
	• New construction
	• HomeStyle Renovation and HomeStyle Energy mortgage loans
	• 2-4 unit properties
	• DU ineligible finding
	• Loans with Affordable Housing LTV feature
	• Loans for which the mortgage insurance provider requires an appraisal
	• Loans for which rental income from the subject property is used to qualify (including Investment Property casefiles*)
	• Texas 50(a)(6) refinance loans (cash-out and limited cash-out refinance transactions)
	• Gifts of equity
	***Note:** In order for an inspection waiver offer to be issued on an investment property casefile, the *negative* subject net cash flow entered on the DU loan application must be at least the amount of the PITIA for the subject property.
	
	Properties with a Recent Appraisal
	DU will not offer an appraisal waiver when an appraisal has been uploaded to the Uniform Collateral Data Portal (UCDP) within the prior 120 days from any lender.

LPA Automated Collateral Evaluation (ACE)	
For certain Loan Product Advisor Mortgages, the automated collateral evaluation provides the Lender with the option to accept an appraisal waiver and originate the Mortgage without an appraisal provided the following requirements are met:	
Eligible Transactions	**Ineligible Transactions**
• LPA Accept • One-unit properties, including condominiums • Primary Residence or Second Home	• HPML loans • Manufactured Homes • Leasehold properties

Appraisal Waivers (cont.)	• Purchase transactions
	  ○ Primary Residence or Second Home
	    ▪ Max 80% LTV/TLTV
	• Rate and Term Refinance
	  ○ Primary Residence and Second Home
	    ▪ Max 90% LTV/TLTV
	• Cash-Out Refinance
	  ○ Primary Residence - Max 70% LTV/TLTV
	  ○ Second Home – Max 60% LTV/TLTV
	• At time of application the loan officer must enter in the note pad that they intend to use the ACE
	• Loan must be disclosed with full appraisal fee
	• Upon evaluation by Loan Product Advisor, the last feedback certificate must indicate that the mortgage is eligible for collateral representation and warranty relief with an appraisal waiver (this represent the "offer"); and
	• The final submission of the mortgage to the Selling System must indicate the collateral representation and warranty relief status is "Y" or "Yes"
	• Underwriting to validate validity of appraisal waiver at approval, and clear to close.
	• There can be no changes to the AUS after clear to close. All underwriting conditions must be received, reviewed and cleared prior to doc. No UTR conditions can be moved prior to funding. Changes to the AUS after clear to close may result in loss of ACE. AUS must be reviewed thoroughly each time AUS is run to ensure waiver is not lost.
		• Mortgages for which an appraisal has been obtained in connection with the mortgage
		• Properties subject to resale restrictions
		• Construction to Perm
		• Renovation Mortgages
		• Mortgages with Freddie Mac Settlement Dates more than 120 days from the Note Date
		• Non-arm's length transactions
		• Purchases on REO properties (as identified in the sales contract)
		• Mortgages with an estimate of value or purchase price greater than $1,000,000
		• Properties listed in disaster areas
		• A contaminated site or hazardous substance exists affecting the property or the neighborhood in which the property is located
		• Adverse physical property conditions that are apparent based on the review of the sales contract, property inspection, disclosure from the borrower or seller.
		• Texas 50(a)(6) refinance loans (cash-out and limited cash-out refinance transactions)

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

Escrow Holdbacks (cont.)

	DU Requirements for New or Proposed Construction
	Mortgages may be delivered before postponed items are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that: • are part of the sales contract (third-party contracts are not permissible); • are postponed for a valid reason, such as inclement weather or a shortage of building materials; and • do not affect the ability to obtain an occupancy permit.
	A certification of completion must be obtained to verify the work was completed and must: • be completed by the appraiser, • state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and • be accompanied by photographs of the completed improvements.
	The cost of completing improvements must not represent more than 10% of the "as completed" appraised value of the property.
	Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
	Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.
	The completion escrow may not adversely affect the mortgage insurance or title insurance.
	Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.
	Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien.

Fannie Mae Owned Properties	A property that was owned and sold by Fannie Mae is called a HomePath property. When the property secured by a mortgage is a Fannie Mae owned property (i.e., HomePath), Fannie Mae will allow certain exceptions to standard eligibility policies as described below: • Maximum interest party contribution for principal residences > 90% is 6%. All other requirements related to IPCs as described in standard guidelines apply. o Note: DU is not able to determine if the subject property is a sale of a HomePath property. DU will issue a message if the amount of the IPC appears to exceed the standard limits. The lender must determine whether the subject transaction is a purchase of a Fannie Mae owned property eligible for the higher IPC limit and document the loan file accordingly. • Notwithstanding any other provisions of Fannie Mae, loans subject to resale restrictions imposed by Fannie Mae as the seller of its REO property are eligible. • Must use SFC 679 when delivering a loan secured by a HomePath property if the IPC exception applies to the transaction. **Note:** Only the exceptions noted in this section are eligible for Fannie Mae Owned Properties. All other standard Conforming Guidelines will still apply
Private Transfer Fee	• Also known as Community Transfer Fee. Refer to Private Transfer Fee Job Aid for requirements.

Property Types	**Eligible**
	• 1 – 4 units
	• Condos – Fannie Mae or Freddie Mac warrantable projects
	    o DU, when full review is required, an approved condo review vendor's report **must be reviewed** and if acceptable, we must run the condo in Condo Project Manager (CPM) and upload evidence that CPM still has approved status to Doc List. Click here for more info on CPM.
	    o DU= Limited review is allowed on investment property when LTV/CLTV/HCLTV is 75% or less
	        ▪ (LPA = Limited review is allowed on investment property when LTV/TLTV/HTLTV is 75% or less).
	    o DU and LPA = Limited review is allowed on primary residences when the LTV/CLTV/HCLTV is 90% or less, or second homes when the LTV/CLTV/HCLTV is 75% or less. For all other occupancy types and LTV/CLTV/HCLTV's, project approval is required.
	        ▪ DU = For Fannie Mae to Fannie Mae Limited Cash-out Refinances, project eligibility review may be waived provided the following is met:
	            • The LTV is ≤ 80% (CLTV/HCLTV ratios may be higher);
	            • The project has the required project-related property and flood insurance coverage; and
	            • The project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project.
	            • The loan must be delivered with Project Type "V" and any applicable SFCs that apply.
	    o Detached Condo = Limited review allowed per AUS findings. Property must be run as Detached Condo under property type in AUS.
	    o FHA Project Review = Units in established condo projects approved by FHA's HUD Review and Approval Process (HRAP) are acceptable. (New or newly converted condo projects and DELRAP are not acceptable.)
	• PUDs – Fannie Mae or Freddie Mac warrantable projects
	• Leasehold Estates - Contact Underwriting for eligibility guidelines
	• Manufactured Homes - Refer to Conventional Manufactured Home Guidelines
	• Agricultural Use of Subject Property – Refer to Appraisal Section for eligibility requirements
	
	Ineligible
	• Properties in C-5 or C-6 condition
	• Co-ops
	• Working Farms
	• Condotel
	• 2-4 Unit PUD **Super Conforming Products**

Real Estate Tax abatements and Exemptions	**DU**
	When there is a tax abatement on the subject property that will last for no less than 5 years from the note date. For example:
	    o for a municipality with a 10-year abatement, the lender may qualify the borrower with the reduced tax amount;
	    o for a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the lender must qualify the borrower with the annual taxes that will be required at the end of the 5th year after the first mortgage payment date.
	The lender has the option to project the real estate taxes if the amount of taxes will be reduced based on federal, state, or local jurisdictional requirements. However, the taxes **may not be reduced** if an appeal to reduce them is only pending and has not been approved.
	
	LPA

	When there is a real estate tax abatement on the property, the Guide permits the Seller to use the reduced real estate tax amount in the monthly housing expense calculation. We have updated the Guide to specify that: • The real estate tax amount can be excluded from the monthly housing expense calculation in its entirety when the documentation and continuance requirements are met, and ▪ For tax exemptions associated with the Borrower's disability or age, documentation verifying continuance is **not required**; however, there **must not be** a predetermined expiration date within five years of the Note Date
Solar / Energy Improvements	• Refer to Solar Energy Job Aid for specific requirements.
Termite Reports	• Termite reports and clearances are required when the appraiser notes termite damage and suggests or requires an inspection as "subject to" or purchase agreement refers to possible termite damage. **Note:** The termite report may not be conditioned merely because it is reflected in the purchase contract by checking the inspection box. ML Mortgage will condition for the termite report if the contract reflects it being a part of the agreement between the buyer and seller, that the seller pays for all "Section 1" items, or that the property is being transferred free of any active infestation.
Title	Owner of Record • The seller per the purchase contract must be the owner of record prior to closing. Concurrent transfer at closing is permitted (i.e., if transaction is New Construction, the owner of record may be the Developer and the Builder may be the seller per the purchase contract, subject to evidence of transfer (prior to funding) from the Developer to the Builder before the transfer from Builder to borrower. • Multiple transfers of the subject property within the prior 12 months must still be addressed properly by ensuring the appraisal confirms increases in value are supported by improvements and/or below market acquisition.
Unpermitted Additions	• Refer to Unpermitted Addition Job Aid for requirements

DU / LPA Validation Services

General Information	The DU/LPA validation service offers lenders an opportunity to deliver loans with more certainty. Certain components of the loan file – income, employment, and assets – are eligible for validation by DU/LPA using electronic verification reports obtained from vendors. When a component of the loan is validated by DU/LPA, the loan may be eligible for representation and warranty enforcement relief related to the component. The validation service is only for conventional loans underwritten through DU and LPA. For loans assessed by the validation service, the lender must: • Obtain borrower authorization to receive the information from the vendor; • Confirm that the verification report matches the borrower; • Ensure information entered by the lender is properly documented; • Investigate and resolve any conflicting or contradictory information; • Retain a copy of all verification reports in the loan filed, in addition to any other documentation required by DU/LPA; and • Ensure that the most current version of the verification report is used by the validation service. If the lender obtains an updated verification report, the lender must resubmit the loan to DU/LPA and receive a message that the components have been validated in order for the representation and warranty enforcement relief to apply. **Validation Results** • *Validated (DU) / Eligible (LPA)* o DU/LPA has determined that the information provided on the verification report supports the information entered into DU/LPA for the component being validated. o DU/LPA message(s) will indicate that the verification report is acceptable documentation to support the components that has been validated. • *Not Validated (DU) / Not Eligible (LPA)* o DU/LPA has determined that the information provided on the verification report does not fully support the information entered into DU/LPA for the component of the loan file eligible for validation. o The DU/LPA message(s) will indicate what documentation, in addition to the verification report, is required. • *Unable to Validate (DU) / Unavailable (LPA)* o DU/LPA is unable to validate the information entered into DU/LPA for the component eligible for validation. This could be due to DU/LPA's inability to access the verification report data, or insufficient data in the report. o DU/LPA message(s) will indicate what documentation is required. **Note**: Regardless of the validation result, DU/LPA will continue to use the information provided by the lender in determining the DU/LPA underwriting recommendation. The results of the validation service do not override, impact, or alter any information submitted by the lender.
Age of Income Document Requirements	**Employment and Income Verification Reports** The date of the report must comply with Fannie Mae / Freddie Mac's standard age of credit document requirements. **Tax Return Transcripts** In order to ensure that the income validation is completed using the most recent tax transcripts, the following will be used to determine if the transcript contains the most recent tax return information. Lenders are not required to comply with the standard age of credit document requirements when DU issues the message that income has been validated. • For loan casefiles created on or before April 30, the most recent tax transcript must be provided. The most recent tax transcript would be for the prior year (current year minus 1). If the prior tax return has not yet been filed or the transcript is not yet available, the most recent tax transcript will be the current year minus 2. • For loan case files created after April 30, the most recent year tax transcript must be provided for validation to be completed. The most recent tax transcript will be for the prior year (current year minus 1).

Asset Validation

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

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

Asset Validation (cont.)

Asset – Additional Information

The following additional information applies to asset validation.

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

Ineligible Transactions

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

Employment Validation

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

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

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

Employment – Additional Information

The following additional information applies to employment validated by DU:

- The vendor must obtain employment information using data obtained from the report supplier's existing database of employer-provided information.
- Income and employment are assessed independently; however, the results of the employment validation may impact income validation (for example, if employment is not able to be validated, the associated income will not be validated).
- DU: When employment is validated by DU, the validation satisfies the requirement for verbal verification of employment. Lenders must comply with all DU messages, including ensuring the loan closes by the "Close By Date" stated in the DU employment validation message.
    - **Note:** For LPA, when employment is validated by LPA, the lender must still obtain and maintain in the mortgage file verification of the borrower's current employment (10-day pre-closing verification).

Employment Validation (cont.)

- The lender must review the verification report, including any Employer Disclaimer information, and investigate and resolve any conflicting or contradictory information.

Income Validation

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

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

Eligible Income Types for Validation	Eligible Verification Report
Base	Employment and Income Verification Report
Bonus	
Overtime	
Commission	
Retirement (annuities and pension)	Tax Return Transcript (Taxpayer Tax Return Summary Report) **Note:** Additional documentation may be required depending on the type of retirement income.
Social Security (retirement, disability, supplemental, survivor benefits)	Tax Return Transcript (Taxpayer Tax Return Summary Report) **Note:** Additional documentation may be required depending on the type of social security income.
Self-employed (IRS Form 1040 Schedules C or C-EZ for sole proprietorships only)	Tax Return Transcript (Taxpayer Tax Return Summary Report)

Income – Additional Information

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

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

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

Income Validation using Tax Return Data

Eligible self-employed income sources (LPA)

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

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