FNMA GUIDELINES

Residential Bancorp

FNMA Program Guidelines v.1

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A. PROGRAM MATRICES

Purchase and Limited Cash Out Table / ARM Refinance Table

Occupancy		Max Loan Amount	Max LTV	Min CLTV	Min FICO	Max Ratios	Min Cash Investments	Mortgage / Rental History	Reserves
OWNER OCCUPIED	1 Unit - Fixed	$417,000	97%[1]	97%[1]	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	No minimum down payment required by borrower	Evaluated by DU	Evaluated by DU
	1 Unit - ARM		90%	90%					
	2 Units - Fixed	$533,850	85%	85%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	No minimum down payment required by borrower	Evaluated by DU	Evaluated by DU.
	2 Units - ARM		75%	75%					
	3-4 Units - Fixed	3 Units - $645,300 4 Units - $801,950	75%	75%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	Minimum borrower contribution from borrower's own funds of 5% is required	Evaluated by DU	Evaluated by DU.
	3-4 Units - ARM		65%	65%					
SECOND HOME	1 Unit - Fixed	$417,000	90%	90%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	Minimum borrower contribution from borrower's own funds of 5% is required	Evaluated by DU	Evaluated by DU.
	1 Unit - ARM		80%	80%					
NON-OWNER	Purchase	1 Unit - Fixed	$417,000	85%	85%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	100% of borrowers own funds required	Evaluated by DU
		1 Unit- ARM		75%	75%				
	Purchase	2-4 Units Fixed	2 Unit - $533,850 3 Unit - $645,300 4 Unit - $801,950	75%	75%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	100% of borrowers own funds required	Evaluated by DU
		2-4 Units - ARM		65%	65%				
	Limited Refinance	1-4 Units - Fixed	$417,000	75%	75%	Subject to DU Approve/Eligible	DU Approved Eligible	100% of borrowers own funds required	Evaluated by DU

		1-4 Units - ARM		65%	65%	min score 620*			

Cash Out Refinance Table

Occupancy		Max Loan Amount	Max LTV	Min CLTV	Min FICO	Max Ratios	Min Cash Investments	Mortgage / Rental History	Reserves
PRIMARY	1 Unit - Fixed	$417,000	80%	80%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	Evaluated by DU	Evaluated by DU	Evaluated by DU
	1 Unit - ARM		75%	75%					
	2-4 Units - Fixed	2 Unit - $533,850 3 Unit - $645,300 4 Unit - $801,950	75%	75%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	Evaluated by DU	Per DU/Additional reserves required if borrower owns other financed properties	Evaluated by DU
	2-4 Units - ARM		65%	65%					
SECOND HOME	1 Unit - Fixed	$417,000	75%	75%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	Evaluated by DU	Evaluated by DU	Evaluated by DU
	1 Unit - ARM		65%	65%					
NON-OWNER	1 Unit - Fixed	$417,000	75%	75%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	Evaluated by DU	6 Mos. PITI be required for other financed properties	Evaluated by DU
	1 Unit- ARM		65%	65%					
	2-4 Units Fixed	2 Unit - $533,850 3 Unit - $645,300 4 Unit - $801,950	70%	70%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	Evaluated by DU	6 Mos. PITI be required for other financed properties	Evaluated by DU
	2-4 Units - ARM		60%	60%					

RESIDENTIAL BANCORP
YOUR MORTGAGE TEAM

High Balance – Purchase and Limited Cash-Out Refinance Table									
Occupancy		**Max Loan Amount**	**Max LTV**	**Min CLTV**	**Min FICO**	**Max Ratios**	**Min Cash Investments**	**Mortgage / Rental History**	**Reserves**
PRIMARY	1 Unit - Fixed	$625,500	90%	90%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	100% of borrowers own funds required	Evaluated by DU	Evaluated by DU.
	2-4 units - Fixed	2 Unit - $800,775 3 Unit - $967,950 4 Unit - $1,202,925	75%	75%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	100% of borrowers own funds required	Evaluated by DU	Evaluated by DU
SECOND HOME	1 Unit - Fixed	$625,500	65%	65%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	100% of borrowers own funds required	Evaluated by DU	Evaluated by DU
NON-OWNER	1-4 Units - Fixed	1 Unit - $625,500 2 Unit - $800,775 3 Unit - $967,950 4 Unit - $1,202,925	65%	65%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	100% of borrowers own funds required	Evaluated by DU	Evaluated by DU

High Balance – Cash Out Refinance Table									
Occupancy		**Max Loan Amount**	**Max LTV**	**Min CLTV**	**Min FICO**	**Max Ratios**	**Min Cash Investments**	**Mortgage / Rental History**	**Reserves**
PRIMARY	1 Unit -Fixed	$625,500	60%	60%	Subject to DU Approve/Eligible min score 620*	DU Approved Eligible	100% of borrowers own funds required	Evaluated by DU	Evaluated by DU

AGE OF DOCUMENTS Back to Table of Contents	• **At time of initial underwriting** the paystub for borrower(s) must be within 30 days of initial loan application. Bank statements must be within 45 of initial loan application. Quarterly bank statements must be dated within 90 days of the initial loan application date and verify the funds in the account have not been transferred to another asset account that is verified with more current documentation. • When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than four months old on the note date. • **At time of funding,** all other documents with the exception of the income documentation, as stated above, in the mortgage loan application may be up to 120 days old. Only documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 days old at the date of funding.
ARMS Back to Table of Contents	• 5/1 and 7/1 LIBOR ARMs o 5/1 ARM: Qualify at the note rate plus 2%, OR o The fully indexed rate with a fully amortizing repayment schedule (including taxes and insurance). The fully indexed rate equals the sum of the value of the applicable index and the mortgage margin. o 5/1 ARM: 5/2/5 caps. o 7/1 ARM: 5/2/5 caps – Qualify at the note rate. • Not Allowed on High Balance per RB policy.
ASSETS Back to Table of Contents	• DU analyzes the value of liquid assets entered in the online application in its risk assessment. • Assets may be excluded from the online application if the borrower can qualify without them.
Bank Statements/Verification of Deposit Back to Table of Contents	• When bank statements are used to verify assets, the bank statements must show account activity for a full two month period. It is not acceptable to use one monthly bank statement and compare the prior month ending balance and the current month ending balance. A full two months of account activity must be reviewed. The statements must: o Clearly identify the borrower as the account holder, o Include the account number, o Include the time period covered by the statement, o Include all deposits and withdrawal transactions (for depository accounts), o Include all purchase and sale transactions (for financial portfolio accounts), and o Include the ending account balance. • Documents that are faxed to Residential Bancorp or downloaded from the Internet must clearly identify the name of the depository or investment institution and the source of information—for example, by including that information in the Internet or fax banner at the top of the document. *Verification of Deposit:* • When a *Verification of Deposit* (Form 1006 or Form 1006(S)) (VOD) is

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<td>used and depository activity is not included, the underwriter must verify the source of funds for:
o accounts opened within the last 90 days of the application date, and
o account balances that are considerably greater than the average balance reflected on the VOD.</td>
</tr>
<tr>
<td>Business Assets

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<td>• When using business assets as funds for the down payment, closing costs, and/or financial reserves, the underwriter must perform a cash flow analysis to confirm the withdrawal of these funds will not have a negative impact on the business.
• In order to access the impact, the underwriter may require a level of documentation greater than what is required to evaluate the borrower’s business income (for example, several months of recent business asset statements in order to see cash flow needs and trends over time, or a current balance sheet). This may be due to the amount of time that has elapsed since the more recent tax return filing, or the underwriter’s need for information to perform its analysis.
• When using business funds for assets, second signature by Underwriting Manager is required.
• Business Assets for a Schedule C Self-Employed Borrower are not allowed.</td>
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<tr>
<td>Gifts

Back to Table of Contents</td>
<td>• Permitted on Primary and 2nd Home transactions.
• Gifts are not permitted on investment properties.
• Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements below.
• The donor may not be affiliated with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
• A gift can be provided by: a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship or a fiancé, fiancée, or domestic partner.
<table>
<tr><th>LTV, CLTV, or HCLTV Ratio</th><th colspan="2">Minimum Borrower Contribution Requirement from Borrower’s Own Funds</th></tr>
<tr><td>80% or less</td><td>One-to four-unit principal residence
Second Home</td><td>A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a gift.</td></tr>
<tr><td rowspan="2">Greater than 80%</td><td>One-unit principal residence
(Except for high-balance mortgage loans)</td><td>A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a gift.</td></tr>
<tr><td>Two-to four-unit</td><td>The borrower must</td></tr>
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	principal residence Second home High-balance mortgage loans	make a 5% minimum borrower contribution from his or her own funds.[1] After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing, and reserves.
If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a finance or fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.		

- Gifts must be evidenced by a gift letter and signed by the donor. The gift letter must:
  - Specify the dollar amount of the gift;
  - Specify the date the funds were transferred;
  - Include the donor's statement that no repayment is expected; and
  - Indicate the donor's name, address, telephone number, and relationship to the borrower.
  - When a gift from a relative or domestic partner is being pooled with the borrower's funds to
  - Make up the required minimum cash down payment, the following items must also be included:
  - A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
  - Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.
- When a gift is entered in Section VI Assets as a gift, the funds are included in available funds.
- It is important that the gift amount is identified separately as a gift even if the funds have already been deposited in a liquid asset account owned by the borrower (such as a checking or savings account). The balance of the liquid asset account entered in the loan application must be adjusted accordingly to prevent duplicate entry of funds. For example, if the borrower's verified checking account reflects a balance of $15,000, and $5,000 of that amount was from a gift, the checking account balance should be adjusted to reflect $10,000, and the $5,000 should be entered separately as a gift.

Verifying Donor Availability of Funds and Transfer of Gift Funds:

- Must verify that sufficient funds to cover the gift are either in the donor's

	account or have been transferred to the borrower's account. Acceptable documentation includes the following: o a copy of the donor's check and the borrower's deposit slip, o a copy of the donor's withdrawal slip and the borrower's deposit slip, o a copy of the donor's check to the closing agent, or o a settlement statement showing receipt of the donor's check. • When the funds are not transferred prior to settlement, documentation that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check is required.
Gift Equity **Back to Table of Contents**	• A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property, and is transferred to the buyer as a credit in the transaction. A gift of equity is permitted for principal residence and second home purchase transactions. • The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. • Not eligible for non-owner or new construction properties. • The donor must provide a gift letter and the gift property must not be a distress sale as evidenced by VOM and equity must be listed on the HUD-1 Settlement Statement. • If the requirements listed above are met, the gift of equity is not subject to Fannie Mae's interested party contribution requirements.
Interested Parties Contributions **Back to Table of Contents**	• Interested parties to a transaction include, but are not limited to, the property seller, the builder/developer, the real estate agent or broker, or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible. • A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction. (For Fannie Mae's purposes, an affiliation exists when there is direct common ownership or control by the lender over the interested party or vice versa, or when there is direct common ownership or control by a third party over both the lender and the interested party. A typical ongoing business relationship — for example, the relationship between a builder and a lender that serves as its financial institution — does not constitute an affiliation.) • Fannie Mae considers the following to be IPCs: o Funds that are paid directly from the interested party to the borrower; o Funds that flow from an interested party through a third-party organization, including nonprofit entities, to the borrower; o Funds that flow to the transaction on the borrower's behalf from an interested party, including a third-party organization or nonprofit agency; and o 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. • IPCs cannot be used for the borrower's down payment or to meet the

	financial reserve requirements, or meet minimum borrower contribution requirements <table><tr><th>Occupancy Type:</th><th>LTV/CLTV Ratio:</th><th>Maximum IPC</th></tr><tr><td></td><td>75.01% - 90%</td><td>**6%**</td></tr><tr><td></td><td>75% or less</td><td>**9%**</td></tr><tr><td>Investment Property</td><td>All CLTV Ratios</td><td>**2%**</td></tr><tr><td colspan="3">IPCs that exceed these limits are considered sales concessions. The property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum, and the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value.</td></tr></table>• Financing concessions typically include origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorneys' fees, survey charges, title insurance premiums or charges, real estate tax service fees, and funds to subsidize a temporary or permanent interest rate buydown (if these fees are not considered common and customary fees or costs based on local custom, as described above). Financing concessions can also include prepaid items, such as: o Interest charges (limited to no more than 30 days of interest); o Real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment); o Property insurance premiums (limited to no more than 14 months); o Homeowner association (HOA) assessments covering any period after the settlement date (limited to no more than 12 months); o Initial and/or renewal mortgage insurance premiums; and o Escrow accruals required for renewal of borrower-purchased mortgage insurance coverage. *Sales Concessions:* • Sales concessions are IPCs that take the form of non-realty items. They include cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways, as well as financing concessions that exceed Fannie Mae limits. Consequently, the value of sales concessions must be deducted from the sales price when calculating LTV and combined LTV ratios for underwriting and eligibility purposes.
Joint Accounts **Back to Table of Contents**	• If an account is held jointly a letter will be required from the joint account holder to verify our borrower has 100% access to those funds. This is required regardless of the relationship.
Large Deposits **Back to Table of Contents**	• Large Deposits are defined as a single deposit that exceeds 50% of the total monthly income for the loan. **Note:** If the deposits exceed 100% of borrower's total income, the underwriter may require an LOE and source of the funds. If bank statements reflect automatic deposits of all income and additional deposits are reflected outside of borrower's monthly income, the underwriter may request an LOE and source of substantial deposits outside of borrower's total income. • Unsourced deposits may be deducted from the verified funds, provided the remaining funds are sufficient or the down payment, closing costs, and financial reserves. **Examples**

	• **Scenario 1**: Borrower has monthly income of $4,000 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 income tax refund. Only the unsourced $500 [the deposit of $3,000 minus the documented $2,500] must be considered in calculating 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 a 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. • **Scenario 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 instance, the unsourced $2,500 is 63% of the borrower's $4,000 monthly income, which does meet the definition of a large deposit. Therefore, the unsourced $2,500 must be subtracted from the account balance of $20,000 and only the remaining $17,500 may be used for underwriting purposes. • If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts and the source of the deposit is printed on the statement, no further explanation or documentation is required. However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed; the underwriter should obtain additional documentation.
Like-Kind Exchanges (1031 Exchange) **Back to Table of Contents**	• Assets for the down payment from a "like-kind exchange" also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031. **Revised 11/10/15**
Non-U.S. Citizen Deposited Funds **Back to Table of Contents**	• Funds that a non-U.S. citizen borrower recently deposited in a U.S. depository institution are an acceptable source of funds provided all of the following requirements are met: o There is documented evidence of funds transfer from the country from which the borrower immigrated, o It can be established that the funds belonged to the borrower before the date of the transfer, and o The sources of all funds used for closing can be verified just as they would for a borrower who is a U.S. citizen.

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Reserves

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- DU will determine the reserve requirements based on the overall risk assessment of the loan and the minimum reserve requirement that may be required for the transaction.
- DU will calculate the reserve requirement for the subject property. However, when a borrower has multiple financed properties and is financing (or refinancing) a second home or investment property, DU is not able to determine the exact number of financed properties the borrower owns. As a result, the Processor/Underwriter must manually apply the applicable additional reserve requirements for the other financed second home and investment property transactions.
- FNMA allows gift funds for reserves to exceed ratios of 45%, subject to DU Approved/Eligible.
- Funds received from acceptable sources may be used to supplement the borrower's funds to satisfy any financial reserve requirement.

Acceptable Sources of Reserves:

- Checking or savings accounts;
- Investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts;
- The amount vested in a retirement savings account; and
- The cash value of a vested life insurance policy.

Unacceptable Reserves:

- Funds that have not been vested;
- Funds that cannot be withdrawn under circumstance other than the account owner's retirement, employment termination, or death, (STIRS, PERS accounts are not allowed).
- Stock held in an unlisted corporation;
- stock options and non-vested restricted stock;
- Personal unsecured loans;
- interested party contributions (IPCs)
- Cash proceeds from a cash-out refinance transaction on the subject property.

MINIMUM RESERVE REQUIREMENTS:	
Principal Residence	Per DU
Second Home or Investment Property:	Per DU
If the total number of financed properties (including the subject property) is:	
2-4 financed properties	2 months for each additional second home or investment property
5 to 10 financed properties	6 months for each additional second home or investment property

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Retirement Accounts

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- Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves.
- Verification of the ownership of the account and confirm that the account

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<tr><td></td><td>is vested and allows withdrawals regardless of current employment status is required. FNMA no longer requires taking 60% of the vested amount.</td></tr>
<tr><td>Stocks, Stock Options, Bonds, and Mutual Funds

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Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. Must verify the borrower’s ownership of the account or asset. The value of the asset and any related documentation must meet the requirements outlined in the table below.
<table>
<tr><th>Asset Type</th><th>Determining the Value of the Asset</th></tr>
<tr><td>Stocks and mutual funds</td><td>To Determine the value of the asset (net of any margin accounts) by obtaining either:
the most recent monthly or quarterly statement from the depository or investment firm; or
a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.</td></tr>
<tr><td>Stock options</td><td>The value of vested stock options can be documented by:
a statement that lists the number of options and the option price, and
Using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock.</td></tr>
<tr><td colspan="2">Note: Non- vested stock options are not an acceptable source of funds for the down payment, closing costs or reserves.</td></tr>
<tr><td>Government Bonds</td><td>The value of government bonds must be based on their purchase price unless the redemption value can be documented.</td></tr>
</table>
When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.
</td></tr>
<tr><td>AUS RECOMMENDATIONS ALLOWED

Back to Table of Contents</td><td>All Loans must receive an “Approve/Eligible” recommendation.
Manual underwriting not allowed.</td></tr>
<tr><td>BORROWER ELIGIBILITY</td><td>Permanent and Non-Permanent Resident Aliens allowed with supporting documentation. Foreign Nationals not permitted. All borrowers must</td></tr>
</table>

Back to Table of Contents	have valid social security number.
Co-Borrowers Back to Table of Contents	• Max number of borrower's is four. DU does not include income or debts of the non-occupant co-borrower. Borrower must qualify on his/her own income, assets (owner occupant ratios apply).
Inter-Vivos Revocable Trusts Back to Table of Contents	• An *inter vivos* revocable trust is a trust that; o An individual creates during his or her lifetime; o becomes effective during its creator's lifetime; and o can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime. • Copy of the Trust Document is required for all States per RB Policy. Also a second signature from Underwriting Manager is required • Fannie Mae will accept an *inter vivos* revocable trust that has an ownership interest in the security property as an eligible borrower for a mortgage for all transaction types. • ***Note*****:** A trust must meet Fannie Mae's revocability and other eligibility requirements at the time the loan is delivered. Trust eligibility is not affected if the trust documents contain a provision that the trust will, in the future, become irrevocable upon the death of one of the settlors. However, such a change in the trust structure after delivery of the mortgage loan may affect the eligibility of the trust as a borrower in a subsequent loan transaction. <u>Trust Requirements:</u> • The *inter vivos* revocable trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. • The trustee(s) must include either: o the individual establishing the trust (or at least one of the individuals, if there are two or more); or o an institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state. • The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note. *<u>Eligible Property and Occupancy Types:</u>* • All property and occupancy types are eligible. For properties that are the borrower's principal residence, at least one individual establishing the trust must occupy the security property and sign the loan documents. *<u>Underwriting Considerations:</u>* • The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or a co-borrower, if there are additional individuals whose income or assets will be used to qualify for the mortgage). *<u>Title and Title Insurance Requirements:</u>* • We are required to retain in the individual mortgage file a copy of any

	trust documents that the title insurance company required in making its determination on the title insurance coverage. • The following requirements apply to title and title insurance: o Title held in the trust does not in any way diminish Fannie Mae's rights as a creditor, including the right to have full title to the property vested in Fannie Mae should foreclosure proceedings have to be initiated to cure a default under the terms of the mortgage. o The title insurance policy ensures full title protection to Fannie Mae. o The title insurance policy states that title to the security property is vested in the trustee(s) of the *inter vivos* revocable trust. o The title insurance policy does not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust. o Title to the security property is vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust. • Only the information related to the individual(s) establishing the *inter vivos* revocable trust whose income and assets are used to qualify for the mortgage should be provided at the time of loan delivery, such as the borrower name and Social Security number. The name of the *inter vivos* revocable trust cannot be included within the loan delivery data. • A mortgage that has an *inter vivos* revocable trust as the borrower must be delivered with Special Feature Code 168 (in addition to any other special feature codes that may also be applicable to the transaction). *Execution and Signature Requirements*: • Each trustee and each individual establishing an *inter vivos* revocable trust whose income and assets are used to qualify for the mortgage must separately execute the **note and any necessary addendum.** • The trustee(s) of the *inter vivos* revocable trust also must execute the security instrument and any applicable rider. • Each individual establishing the trust whose income and assets are used to qualify for the mortgage must acknowledge all of the terms and covenants in the security instrument and any necessary rider, and must agree to be bound thereby, by placing his or her signature after a statement of acknowledgment on such documents.
CREDIT Back to Table of Contents	• Loan casefiles submitted to DU, the borrower's present address must **be within the U.S.,** U.S. territories, or APO military addresses located within the U.S. • Select a single applicable score for underwriting each borrower. • When two credit scores are obtained, choose the lower score. • When three credit scores are obtained, choose the middle score. (If two of the three scores are the same, choose the middle of the three scores. For example: 700, 680, 680 = 680; 700, 700, 680 = 700) • If there is only one borrower, the single applicable score used to underwrite that borrower is the representative credit score for the mortgage. • If there are multiple borrowers, determine the applicable credit score for each individual borrower and select the lowest applicable score from the

	group as the representative credit score for the mortgage.
30-Day Charge Accounts **Back to Table of Contents**	• Borrower must have sufficient funds to cover the unpaid balance of all unpaid 30-day charge accounts (e.g., American Express). DU will include the balance in the required cash to close and total funds verified.
Bankruptcy Chapter 7 OR 11 **Back to Table of Contents**	• Four (4) years from discharge date or dismissal date. Less than four (4) years regardless if due to extenuating circumstances will receive "Refer with Caution" therefore will require manual underwrite. Manual underwriting is not allowed.
Bankruptcy Chapter 13 **Back to Table of Contents**	• Two (2) years from discharge date. Four years from the dismissal date. Less than four years for dismissal, regardless if due to extenuating circumstance will receive "Refer with Caution", therefore will require manual underwrite. Manual Underwriting is not allowed.
Bankruptcy Filings (Multiple) **Back to Table of Contents**	• Five (5) years waiting period is required. Less than five (5) years regardless if due to extenuating circumstance may receive "Refer with Caution", therefore will require manual underwrite. • Note: Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies. • If DU does not recognize the multiple bankruptcies, the underwriter must evaluate the file to verify meets the five year waiting period. Loan subject to AUS Approval. Manual underwriting is not allowed.
Car Lease Payments **Back to Table of Contents**	• The lease payment must be included in the DTI regardless of the remaining number of payments.
Closed Accounts with a Balance **Back to Table of Contents**	• Closed accounts with a balance must be manually added to the liabilities on the 1003 application prior to submitting the transaction to DU. Credit report will not merge closed accounts with balances to the liabilities shown on 1003 application.
Co-Borrowers Without Credit Scores **Back to Table of Contents**	• Loan casefiles for borrowers who do not have traditional credit and credit scores is allowed per DU, if at least one other borrower on the loan application has one or more credit scores and all of the following conditions are met: o The property must be a one-unit, principal residence, and all borrowers will occupy the property. o The transaction must be a purchase or limited cash-out refinance. o The loan amount must meet the general loan limits — high-balance mortgage loans are **not** eligible. o The income used to qualify the borrowers **cannot** come from self-employment. o The borrower with traditional credit and a credit score must contribute more than 50% of the qualifying income. • The property must be a one-unit, principal residence, and all borrowers

	will occupy the property. • The transaction must be a purchase or limited cash-out refinance. • The loan amount must meet the general loan limits — high-balance mortgage loans are not eligible. • The income used to qualify the borrowers cannot come from self-employment. • The borrower with traditional credit and a credit score must contribute more than 50% of the qualifying income. • The above criteria apply to mortgage loans without regard to the product, such as MCM and HomeStyle Renovation.
Collections/ Charge-Offs **Back to Table of Contents**	• Delinquent credit—including taxes, judgments, charge-offs of non-mortgage accounts (see below for exceptions), tax liens, mechanics' or materialmen's liens, and liens that have the potential to affect lien position to the borrower's equity—must be paid off at or prior to closing • Past-Due, Collection, and Charge-Off of Non-Mortgage Accounts (DU Approve/Eligible): Accounts that are reported as past due (not reported as collection accounts) must be brought current. o For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount. ***Note:*** If the underwriter marks the collection account Paid By Close in the online loan application, DU will issue a message in the DU Underwriting Findings report stating that the collection must be paid. o For two- to four-unit owner-occupied and second home properties, collections and non- mortgage charge-offs totaling more than $5,000 must be paid in full prior to or at closing. • For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing.
Contingent Liability (Co-signed Loans) **Back to Table of Contents**	• The borrower and the individual making the payments must **both be liable for the debt repayment.** • To exclude the payment from the DTI ratio, 12 months canceled checks or bank statements are required as evidence of timely payment by the other co-obligator on the note/loan. The person making the payments must be a co-obligator on the loan.
Debt/Minimum Payments **Back to Table of Contents**	• The greater of $10 or 5% of balance for revolving/installment accounts if payment not reporting. Include all revolving payments regardless of the number of payments remaining. • HELOC: If not shown on the credit report, payments on a HELOC with an outstanding balance may be calculated at 1% of the outstanding balance or use billing statement.
Disputed trades **Back to Table of Contents**	• DU will issue the disputed tradeline message when a disputed tradeline is identified and that tradeline contains derogatory payment information (a 30-day or more delinquency) reported within two years prior to the credit report date. • When DU issues this message, the message will list the disputed tradeline with a reported derogatory payment within the last two years. • If the disputed information is accurate a new credit report is required removing the disputed information and resubmit the report through DU.

	• If DU does not issue a message specific to the trade line with a dispute, it is not required to be addressed. • If the trade line DOES belong to the borrower and the reported payment history is accurate, the disputed trade line(s) must be considered in the credit risk assessment. To ensure the disputed trade line is considered, a **new credit** report must be obtained with the trade line(s) no longer reported as disputed and resubmit the loan case file to AUS. • ***Note:*** If the credit reporting confirms that the disputed information is incorrect or incomplete and underwriting of the application needs to be completed before the credit files can be corrected, the credit score cannot be used, therefore, a Rapid rescore must be obtained removing the disputed tradeline. • The following scenarios are examples of when an updated credit report is not required, provided the borrower can provide documentation to support the claim: o A borrower's account was referred for collection by the creditor. Subsequently, the borrower paid off the account, but the pay-off was not reported on the tradeline. The borrower requested that a dispute be placed on the tradeline. The tradeline was accurate, but because it did not reflect that the borrower paid off the account, it may be considered incomplete. The borrower must provide documentation that the account was paid in full. o A borrower and his son have the same name (Sr. and Jr.). The borrower's credit report contains a tradeline that actually belongs to the son. The tradeline is reported as disputed. The borrower can provide confirmation that he is not obligated on the account. o The servicer of the loan being disputed indicates a late payment in January of the previous year. The borrower can provide documentation (for example, canceled checks, bank statements) that indicates that the payment was made on time. • The following scenario would require to either obtain an updated credit report and resubmit the loan casefile to DU: o The credit report indicates a disputed tradeline on the borrower's mortgage being refinanced. The tradeline indicates a 60–day late payment in January of the previous year. The borrower cannot provide any documentation to support that the payment was made on time. • If DU does not issue the disputed tradeline message, we are not required to o further investigate the disputed tradeline on the credit report, o obtain an updated credit report (with the undisputed tradeline), • However, we ensure that the payment for the tradeline, if any, is included in the debt-to-income ratio if the account does belong to the borrower. • ***Note:*** Tradelines reported as medical debt (Account Type Code of MD or Remarks Code of EO166) are not shown in the disputed tradeline message and are not required to be investigated further.
Extenuating Circumstances	• For applications taken on or after 08/16/14: Examples of documentation that can be used to support extenuating circumstances include

Back to Table of Contents	documentation that confirm the event such as a copy of a divorce decree (i.e., significant loss of income due to divorce), medical reports or bills, notice of job layoff, job severance papers, death of major wage earner, etc., and documentation that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during and after a loss of employment). Etc. • Borrower must also provide a letter of explanation detailing the extenuating circumstance.
Foreclosure **Back to Table of Contents**	• Must be > seven (7) years, unless documentation is provided to prove the foreclosure information is inaccurate, or due to extenuating circumstances. • For applications taken on or after 08/16/14 - Extenuating circumstance: A three-year (3) waiting period is permitted with documentation supporting the extenuating circumstance: o Maximum LTV/CLTV/HCLTV is limited to the lesser of 90% or the maximum LTV/CLTV/HCLTV allowed per the Eligibility matrix. o Purchase, principal residence. o Limited Cash-out refinance for all occupancy types. o Input code in DU of "Confirmed CR FC EC" for Extenuating circumstance and "Confirmed CR FC incorrect" for inaccurate credit. o Refer to Extenuating Circumstance Section of this matrix for additional requirements. o ***Note:*** The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a seven-year waiting period has elapsed. • Foreclosure and Bankruptcy on the Same Mortgage. If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the underwriter obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied. Must show the foreclosure was included in the total dollar amount of the bankruptcy and was included in the bankruptcy discharge.
Inquiries Back to Table of Contents	• Credit inquiries within last 90 days require written explanation.
Judgments/Liens/ *Garnishments* **Back to Table of Contents**	• Judgments, garnishments and liens must be paid off at or prior to closing. Documentation of the satisfaction must be provided • ***Note:*** Fannie Mae guidelines regarding the payoff of tax liens and the supporting documentation apply to loan casefiles underwritten through DU.
Min Trades/ Authorized user	• DU takes credit report tradelines designated as authorized user

accounts **Back to Table of Contents**	tradelines into consideration as part of the DU credit risk assessment. • The underwriter must review credit report tradelines in which the applicant has been designated as an authorized user in order to ensure the tradelines are an accurate reflection of the borrower's credit history. • If the authorized user tradelines are not an accurate reflection of the borrower's credit history, the underwriter should evaluate the borrower's credit history without the benefit of these tradelines and use prudent underwriting judgment when making the final underwriting decision. • DU will issue a message providing the name of the creditor and account number for each authorized user tradeline identified. • 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 has a few accounts of his/her own, you should establish: o the relationship of the borrower to the owner of the account, o if the borrower uses the account, and o 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. On the other hand, if the borrower has several tradelines in good standing and only a minor number of authorized user accounts, the underwriter could make the determination that: o the authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and o the information reported on the credit report is an accurate reflection of the borrower's credit history. • The underwriter is not required to review an authorized user tradelines that belongs to the borrower's spouse when the spouse is not on the mortgage transaction.
Mortgage Delinquencies **Back to Table of Contents**	• DU applies the following guidelines to the processing of loans with mortgage delinquencies: • If any borrower's credit report contains a mortgage tradeline that is 60 or more days past due when the account was last reported by the creditor and the account was reported within the 12 months prior to the credit report date, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae. • If an account is reported on the credit report as a non-mortgage tradeline, and yet the account is listed on the loan application as a mortgage, DU will analyze the credit history of the tradeline as a mortgage. For example, if the credit report identifies an account as a revolving account, and the account is listed as a HELOC on the loan application, DU will evaluate the credit history of the account as a mortgage. Any late payments in the credit report will be treated by DU as delinquent mortgage payments. • If there is a mortgage that is disclosed on the loan application but not reported on the credit report, or the mortgage is on the credit report with an outstanding balance but the payment history has not been reported in the last six months, DU will issue a message requiring the Underwriter to confirm that the account is not two or more payments past due as of

	the date of the application and that is has not been past due by two or more payments in the last 12 months. If the Underwriter determines that the borrower does not have a mortgage that is past due by two or more payments or has been past due by two or more payments in the last 12 months, then the loan casefile is not eligible for delivery to Fannie Mae. **Revised 11/10/15** • Borrowers may not bring past-due mortgage accounts current prior to closing in order to circumvent Fannie Mae's policy regarding past-due mortgages. However, we may apply some discretion with regard to the application of this policy if it determines and documents that the past-due account status was not the fault of the borrower—for example, if the servicer misapplied or lost the borrower's payment. • Loan casefiles will receive an Ineligible recommendation due to excessive prior mortgage delinquency if the borrower has a mortgage tradeline on his or her credit report that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date. • The above policies will apply to all mortgage tradelines, including first liens, second liens, home improvement loans, HELOCs.
Mortgage History Back to Table of Contents	• Per DU.
Payoff of revolving debt and installment Loans Back to Table of Contents	• In order to qualify without the monthly payment on the current balance, a revolving account must be paid off. • Revolving accounts that are paid down to zero at closing may **remain open** and no monthly payment needs to be included in the DTI ratio. • Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.
Prior Restructure reflected in credit history Back to Table of Contents :	• At least two (2) years has elapsed since completion date with re-established acceptable credit for subject property.
Short Sale/Pre-foreclosure/foreclosure/Deed in Lieu/charge-off of a Mortgage Account Back to Table of Contents	• **Note:** The terms "preforeclosure sale" and "short sale" are used interchangeably in this Guide and have the same meaning (see Deed-in-Lieu of Foreclosure, Preforeclosure Sale, and Charge-Off of a Mortgage Account below). • At least four (4) years since completion date of short sale, Deed-in-Lieu of Foreclosure/Charge-off and re-established acceptable credit score. For applications taken on or after 08/16/14: Two (2) years is allowed if supporting documentation proves Extenuating Circumstances. No specific input code to DU is required. Refer to Extenuating Circumstance Section of this matrix for additional requirements. Loan subject to AUS Approval.

GUIDELINES (FNMA) [Back to Table of Contents]	• You may access FNMA Program Guidelines by going to their website as shown below: https://www.fanniemae.com/singlefamily/originating-underwriting • Click on Originating and Underwriting; Click on Selling Guide; Click on PDF Version Selling Guide (to the Left of the screen), Underwriting Guidelines star in Part B. FNMA guidelines are also located in FAST.
HIGH BALANCE [Back to Table of Contents]	• High-Balance mortgage loans (HBLs) are subject to high-cost area loan limits set annually by the Federal Housing Finance Agency (FHFA). • Note: Regarding refinances of existing Fannie Mae loans, the refinance loan must meet the loan limits applicable at the time of sale of the refinanced loan to Fannie Mae, regardless of whether higher limits might have applied to the existing loan being refinanced. • Loan Limits: https://www.fanniemae.com/singlefamily/loan-limits
Appraisal Requirements [Back to Table of Contents]	*Standard Appraisal requirements apply, except:* • One-Unit Residential Appraisal Field Review Report (Form 2000) also required if: o If the loan amount is above $625,500 and LTV/CLTV/HCLTV > 80%, or the property value is less than or equal to $1 million and LTV/CLTV/HCLTV > 75%. Use the lower of original appraised value, Field Review value, or sales price (for purchases) to calculate LTV.
Arms [Back to Table of Contents]	• Not allowed on High Balance Loan Transactions per RB policy.
Loan Purpose [Back to Table of Contents]	• Purchase transaction. • Limited cash-out transaction. • Cash-Out transaction (principal residence only).
Condominiums [Back to Table of Contents]	• For properties in attached condominium projects, the appraisal must contain two comparable sales from projects outside of the subject's project.
INCOME [Back to Table of Contents]	• A minimum history of two years of employment income is recommended. However, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history.
Amended Tax Returns [Back to Table of Contents]	• Original filed returns and the amended return are required. Tax returns must have been amended prior to the application date and execution of the purchase contract. CANNOT BE AMENDED TO QUALIFY.
Bonus, Over-Time	• Borrower must have a **two-year consecutive** history of receiving bonus/overtime/commission, and the income must be likely to continue.

Back to Table of Contents	• A Break-down of the overtime, per written VOE is required. If cannot obtain a Written VOE with the breakdown, borrower will need to provide YTD paystubs for two years with OT/Bonus breakdown. • However, income that has been received for a shorter period of time may be considered as acceptable income as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history. **Second review by Underwriting Manager** is required for income less than two years. • Borrowers relying on overtime or bonus income for qualifying purposes must have a history of no less than 12 months to be considered stable. • If the borrower has recently changed positions with his or her employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the future.
Commission Income Back to Table of Contents	• A minimum history of two (2) years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered at the underwriter's discretion as acceptable income, as long as there are **positive factors to reasonably offset the shorter income** history. Compensating factors are required i.e. additional assets, low DTI, verification commission income paid is typical for the industry, etc. **Second review by Underwriting Manager is required** for commission income less than two years. Commission income less than 12 months is not allowed. • If the commission income represents less than 25% of the borrower's total annual employment income, obtain the following documents: o The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. o Written VOE with breakdown of commission income. o W-2 Transcripts. • For borrowers with commission income representing 25% or more of their total annual employment income, **any unreimbursed** business expenses must be subtracted from the gross commission income. The following documentation is required: o Copies of the borrower's signed federal income tax returns that were filed with the IRS for the **past two years.** o The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. o Written VOE with breakdown of commission income. o Two years IRS Tax Transcripts.
Employed by family member Back to Table of Contents	• Requires full documentation regardless of AUS. Two (2) years tax returns, W-2's; one month's current paystubs with 30 days of earnings, Written VOE, and acceptable evidence (CPA letter) does not own more than 25% interest in the company.
Employment Gaps Back to Table of Contents	• Follow DU Findings report including income documentation requirements.
Rental Income	• General Requirements for Documenting Rental Income: If a borrower has a history of renting the subject or another property, generally the

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rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return.

- Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following:
  - A two-to four-unit principal residence property in which the borrower occupies one of the units, or
  - A one-to four-unit investment property.
- If the borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the underwriter may be justified in using a fully executed lease agreement. Examples of scenarios that justify the use of a lease agreement are:

Purchase Transactions;
  - refinance transactions in which the borrower purchased the rental property during **or**
  - subsequent to the last tax return filing; **or**
  - refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income).
- When the subject property will generate rental income, one of the following Fannie Mae forms must be used to support the income-earning potential of the property.
  - For one-unit properties: *Single-Family Comparable Rent Schedule* (Form 1007) (provided in conjunction with the applicable appraisal report),

https://www.fanniemae.com/content/guide_form/1007.pdf
  - For two- to four-unit properties: *Small Residential Income Property Appraisal Report* (Form 1025). https://www.fanniemae.com/content/guide_form/1025.pdf

Documenting Rental Income from Subject Property:

Does the Borrower Have a History of Receiving Rental Income From the Subject Property?	Transaction Type:	Documentation Requirements:
Yes	Refinance	Form 1007 or Form 1025, as applicable, and either: • The borrower's most recent year of signed federal income tax returns, including Schedule E, or • Copies of the current lease agreement(s) if the borrower can document a qualifying exception (see Partial or No Rental History on Tax Returns below).
No	Purchase	Form 1007 or Form 1025, as applicable, and • copies of the current lease agreement(s).

		If the property is not currently rented, lease agreements are not required. Underwriters may use market rent supported by Form 1007 or Form 1025, as applicable. If there is a lease on the property that is being transferred to the borrower, the underwriter must verify that it does not contain any provisions that could affect Fannie Mae's first lien position on the property.
No	Refinance	Form 1007 or Form 1025, as applicable, and • copies of the current lease agreement(s).

<u>Documenting Rental Income From Property Other Than the Subject Property:</u>

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

<u>Partial or No Rental History on Tax Returns:</u>

- In order for the underwriter to determine qualifying rental income, the lender must determine whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, the underwriter's analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This policy may be applied to refinances of a subject rental property or to other rental properties owned by the borrower.
- If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, the underwriter may determine qualifying rental income by using
  - Schedule E income and expenses, and annualizing the income (or loss) calculation; or
  - fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

If…	Then…
the property was acquired during or subsequent to the most recent tax filing	the underwriter must confirm the purchase date using the settlement statement or

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<tr><td>year,</td><td>other documentation.
• If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental).
• If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.</td></tr>
<tr><td>the rental property was out of service
for an extended period,</td><td>• Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service.
• Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.</td></tr>
<tr><td>the Underwriter determines that some other situation warrants an exception to use a lease agreement,</td><td>the underwriter must provide an explanation and justification in the loan file.</td></tr>
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<td>Rental Income: Calculating Monthly Qualifying Rental Income (or Loss)

Back to Table of Contents</td>
<td>• Federal Income Tax Returns, Schedule E. When Schedule E is used to calculate qualifying rental income, the lender must add back any listed depreciation, interest, homeowners’ association dues, taxes, or insurance expenses to the borrower’s cash flow. Non-recurring property expenses may be added back, if documented accordingly.
• If the property was in service
o for the entire tax year, the rental income must be averaged over 12 months; or
o for less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.
• Lease Agreements. When current lease agreements are used, the lender must calculate the rental income by multiplying the gross rent(s) by 75%. The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.</td>
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<td>Rental Income: Current primary converted to second</td>
<td>• Payment for both properties must be used to qualify the borrower with 6 months PITI in reserves after closing for both properties.</td>
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home **Back to Table of Contents**	
Rental Income: Departure property converting current residence to Investment **Back to Table of Contents**	• Follow the standard rental income and financial reserve requirements when the borrower converts his or her current principal residence to an investment property. Refer to Cash Reserve Requirement section of this Product Matrix and Rental income section. • FNMA eliminated the previous requirement of supporting 30% equity in vacating property and providing evidence of rental deposit.
Seasonal Income **Back to Table of Contents**	• Verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two years. • Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season. • For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.
Secondary Income **Back to Table of Contents**	• Verification of a minimum history of **two years** of uninterrupted secondary employment income is recommended. However, income that has been received for a shorter period of time (no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history. • **Second review by Underwriting Manager is required for income less than two years**.
Self-Employment Income: Back to Table of Contents	• Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed. • The following factors must be analyzed before approving a mortgage for a self-employed borrower: o the stability of the borrower's income, o the location and nature of the borrower's business, o the demand for the product or service offered by the business, o the financial strength of the business, and o the ability of the business to continue generating and distributing sufficient income to enable o the borrower to make the payments on the requested mortgage. • A self-employed borrower's employment and income must be verified by obtaining from the borrower copies of his or her signed federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS or IRS-Transcripts for the **past two years** (with all applicable schedules attached). • When two years of signed individual federal tax returns are provided, the underwriter may waive the requirement for business tax returns if: o the borrower is using his or her own personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements,

	o the borrower has been self-employed in the same business for at least five years, and o the borrower's individual tax returns show an increase in self-employment income over the past two years. • For certain loan casefiles (**the next DU update, scheduled for release sometime in December)** DU will issue a message permitting **only one year of personal and business tax returns**, provided the income is documented by: Revised 08/25/15 o Obtaining signed individual and business federal income tax returns for the most recent year, o Confirming the tax returns reflect at least 12 months of self-employment income, and o Completing Fannie Mae's Cash Flow Analysis (RB is using MGIC's 1084 worksheet) or any other type of cash flow analysis form that applies the same principles. • *Using Ordinary Income From K-1:* FNMA requires the underwriter to complete a written evaluation of his/her analysis of a self-employment borrower's personal income, including the business income or loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. Underwriters are to use MGIC's Cash Flow Analysis form. Also, will need to provide a CPA letter or Partnership Agreement to verify the borrower can receive the Ordinary Income (Shared percentage of the business income). This is not required when a borrower is qualified using only income that is **not** derived from self-employment and self-employment is a secondary and separate source of income (or loss). o Examples income not derived from self-employment include salary and retirement income. o If the K-1 reflects borrower receiving Distribution Income from the business, then the underwriter does not need to provide a CPA letter or Partnership Agreement. *Analysis of Borrower's Business Income:* • When a borrower is relying upon self-employed income to qualify for a mortgage and the requirements that permit the underwriter to waive business tax returns are not met, the underwriter must prepare a written evaluation of its analysis of the borrower's business income (complete MGIC's Cash Flow Analysis form 1084). • The purpose of this analysis is to: o consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation; o measure year-to-year trends for gross income, expenses, and taxable income for the business; o determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and o determine a trend for the business based on the change in these percentages over time. *Income Verification for Self-Employed Co-Borrowers:* • When a borrower who is qualified using only income that is not derived

	from self-employment and a self-employed co-borrower jointly apply for a mortgage and the co-borrower's income will **not** be used for qualifying purposes, the co-borrower's last two years of complete individual and business tax returns or other financial information related to the business are not required. Instead, the co-borrower may provide a copy of the first page of his or her latest individual federal income tax return, which will enable the underwriter to determine whether there was a meaningful business loss. Underwriter must perform at least one of the following: o determine there is not a meaningful business loss, in which case no additional action or documentation is required; o reduce the salaried income being used to qualify by the amount of the reported loss, in which case additional documentation is not required; o obtain the most recent year complete individual and business tax returns to determine if there was a meaningful loss after adjusting for non-recurring or non-cash expenses. If after evaluation, the lender determines there is a meaningful business loss, the qualifying income must be reduced by the amount of the meaningful business loss; or o decide that it needs to request additional information about the co-borrower's business income in order to determine whether there is an impact on qualifying income.
Tip Income Back to Table of Contents	• Obtain the following documents: o a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)), o the borrower's recent paystub, and o IRS W-2 forms covering the most recent two-year period or the most recent two years tax returns with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to verify tips not reported by the employer. • Tip income may be used to qualify the borrower if the underwriter verifies that the borrower has received it for the last two years • Tip income must be entered in DU in the Other Monthly Income section of the loan application as "Other Types of Income" and verified according to these requirements.
Unreimbursed Employment Business Expenses Back to Table of Contents	• Determine whether the borrower has unreimbursed employee business expenses for the following Scenarios: o When a borrower has commission income that represents 25% or more of the borrower's total annual employment income, or o When an automobile allowance is included in the borrower's monthly qualifying income. • The underwriter must determine the borrower's recurring monthly debt obligation for such expenses by developing a 24–month average of the expenses, using information from the borrower's IRS Form 1040 including all schedules (Schedule A and IRS Form 2106). Automobile depreciation claimed on IRS Form 2106 should be netted out of this

	calculation. • For both of the above scenarios when calculating the total debt-to-income ratio, the monthly average for unreimbursed expenses should be subtracted from the borrower's stable monthly income. Automobile lease or loan payments are not subtracted from the borrower's income; they are always considered part of the borrower's recurring monthly debt obligations.
Verbal Verification of Employment **Back to Table of Contents**	*Verbal VOE requirements for hourly, salary and commission income are:* • Residential Bancorp must contact the employer, verbally or in writing, and confirm the borrower's current employment status within 10 days prior to the note date for employment income, and within 30 calendar days prior to the note date for self-employment income. • A phone number, and if possible, an address must be obtained from the borrower's employer. This can be accomplished by using a telephone book the Internet, or directory assistance, or by contacting the applicable licensing bureau. • If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number. The written documentation should also include the name and title of the person who performed the verification. • ***Note:*** If the employer confirms the borrower is currently on temporary leave, the borrower is considered "employed". • If the employer will not verbally verify employment, the lender can obtain a written verification (other than an additional paystub) confirming the borrower's current employment status within the same time frame as the verbal VOE requirements (within 10 days of the note date). The written documentation must include the name and title of the person who completed the verification for the employer. • If the employer uses a third party employment verification vendor, the lender must obtain written verification from the vendor of the borrower's current employment status within the same time frame as the verbal VOE requirements (within 10 days of the note). • ***Note:*** Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date. *Verbal VOE requirements for Military Personnel:* • A Military Leave and Earnings Statement dated within 30 calendar days prior to the note date (or 31 days for longer months), OR • A verification of employment through the Defense Manpower Data Center (https://www.dmdc.osd.mil/appj/mla/). *Verbal VOE requirements for self-employed income are*: • The existence of the borrower's business must be verified within 30 days prior to the closing date: o From a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; and

	o By verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance. o ***Note***: If borrower's employment business cannot be validated by any of the above sources, then three business reference letters from vendors/clients is required and/or documentation verifying current receipt of the income.
LIABILITIES **Back to Table of Contents**	• The risk analysis must include all liabilities affecting income or assets that will affect the borrower's ability to fulfill the mortgage payment obligation.
Authorized User Tradelines **Back to Table of Contents**	• DU takes credit report tradelines designated as authorized user tradelines into consideration as part of the DU credit risk assessment. However we must review credit report tradelines in which the applicant has been designated as an authorized user in order to ensure the tradelines are an accurate reflection of the borrower's credit history. • If we believe the authorized user tradelines are not an accurate reflection of the borrower's credit history, we evaluate the borrower's credit history without the benefit of these tradelines and use prudent underwriting judgment when making its final underwriting decision. • In order to assist in its review of authorized user tradelines, DU issues a message providing the name of the creditor and account number for each authorized user tradeline identified. • 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 has a few accounts of his/her own, the lender should establish: o the relationship of the borrower to the owner of the account, o if the borrower uses the account, and o 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. On the other hand, if the borrower has several tradelines in good standing and only a minor number of authorized user accounts, the lender could make the determination that: o the authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and o The information reported on the credit report is an accurate reflection of the borrower's credit history.
Home Equity Lines of Credit: **Back to Table of Contents**	• When the mortgage that will be delivered to Fannie Mae also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. RB will use payment reflecting on credit report. • If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.
Omitted Accounts **Back to Table of Contents**	• Supporting documentation is required when a credit report liability with a balance greater than zero is omitted from the loan application.

Possible Non-applicant Debts [Back to Table of Contents]	• The DU Underwriting Findings report will list any debts that are identified as "possible non-applicant debts" on the credit report. • The possible non-applicant accounts will be included in the credit risk assessment and, if the debts are on the loan application, DU will include them in the DTI ratio. • If the debts do not belong to the borrower, the lender may provide supporting documentation, remove the debts from the loan application, and resubmit the loan casefile to DU in order for the DTI ratio to be updated to exclude the non-applicant debts
LOAN TERMS AVAILABLE [Back to Table of Contents]	• 30, 25, 20 & 15 year Fixed and 5/1 and 7/1 ARMs. ARMS not allowed on High-Balance.
LTV RATIOS GREATER THAN 95% - PURCHASE TRANSACTIONS [Back to Table of Contents]	• The following additional requirements apply for LTV Ratios greater than 95% (LTV/CLTV 97%). Subordinate financing **not** allowed including Community Second Lien Transactions, i.e. CHDAP. o Fixed-rate loans with terms up to 30 years. High-balance and adjustable-rate and HomeStyle Renovation loans are not permitted. o One-unit principal residence. o At least one borrower must be a first-time homebuyer, as indicated on the Uniform Residential Loan Application (Form 1003) in Section VIII., when at least one borrower responds "No" to Declaration M: Have you had an ownership interest in a property in the last three years? o Loans must receive a DU "Approve/Eligible" Decision. o Home-buyer Education and Counseling is not required. o 35% Mortgage Insurance Coverage is required. Mortgage Insurance Company allowed: Use Radian only. If Radian cannot approve the loan, please contact the Corporate U/W Manager. Do not use Genworth. o Follow DU Findings for required reserves. Reserves may come from eligible gifts. o A minimum borrower contribution from the borrower's own funds is not required. All funds to complete the transaction can come from a gift. o Reserves requirements will be determined by DU.
LTV RATIOS GREATER THAN 95% - LIMITED CASH-OUT REFINANCE TRANSACTIONS: [Back to Table of Contents]	• The following additional requirements apply for LTV/CLTCV/HCLTV Ratios Greater than 95%. LTV/CLTV 97% (Subordinate Financing is not allowed) o The existing loan being refinanced must be owned (or securitized) by Fannie Mae. Documentation may come from: a) The current servicer (if the lender is not the servicer). b)Fannie Mae's Loan Lookup too - https://knowyouroptions.com/loanlookup o LTV/CLTVHCLTV 95.01 to 97%. o Fixed-rate loans with terms up to 30 years. High-balance and adjustable-rate are not allowed. o One-unit principal residence. o DU "Approve/Eligible" transactions only. The lender must inform

<table>
<tr><td></td><td>DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage field in the online loan application before submitting the loan to DU.
o 35% Mortgage Insurance Coverage is required. Mortgage Insurance Company allowed: Use Radian only. If Radian cannot approve the loan, please contact the Corporate U/W Manager. Do not use Genworth.
o All other standard limited cash-out refinance policies apply.
o The above requirements do not apply to DU Refi Plus or Refi Plus Transactions.</td></tr>
<tr><td>MINIMUM LOAN SIZE

Back to Table of Contents</td><td>• $50,000 (Revised 11/15/15)</td></tr>
<tr><td>MORTGAGE CREDIT CERTIFICATES (MCC)

Back to Table of Contents</td><td>• States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.
• When calculating the borrower's DTI ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income:
o (Mortgage Amount) x (Note Rate) x (MCC %)] ÷ 12 = Amount added to borrower's monthly income.
• For example, if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125).
• A copy of the MCC and the underwriter's documented calculation of the adjustment to the borrower's income must be included in the mortgage loan file.
• For refinance transactions, the lender may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new mortgage loan file.</td></tr>
<tr><td>MORTGAGE INSURANCE (MI)

Back to Table of Contents</td><td>• Mortgage Insurance coverage is required for loans with LTV ratios greater than 80%. Refer to table below. Mortgage Insurance types: borrower paid monthly mortgage insurance and lender single paid and monthly paid mortgage insurance.
MI Factors:
<table><tr><th colspan="5">LTV Range</th></tr><tr><th>Transaction Type</th><th>80.01- 85.00%</th><th>85.01-90.00%</th><th>90.01-95.00%</th><th>95.01-97%</th></tr><tr><td>Fixed-Rate, Term ≤ 20 Years</td><td>6%</td><td>12%</td><td>25%</td><td>35%</td></tr></table></td></tr>
</table>

Fixed-Rate, Term >20 Years	12%	25%	30%	35%

MULTIPLE FINANCED PROPERTIES

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- Property is borrower's primary residence - No limitations on number of properties financed.
- Property is a second home or an investment property, the borrower may own or obligated on up to ten (10) financed properties (including his or her principal residence).
- These limitations apply to the total number of properties financed, not to the number of mortgages on the property.
- DU cannot determine number of financed properties the borrower owns or is obligated on, but will issue messages on second and investment property transactions reminding that the eligibility requirements must be manually applied to investment and second homes.

Borrowers with Five (5) to Ten (10) financed Properties (Second Home or Investment Properties)

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Second Home or Investment Property

Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV Ratio 90.01-95.00%	Minimum Credit score
Purchase/Limited Cash-out Refinance	1 Unit	FRM: 75% ARM: 65% High-Balance FRM/ARM: 65%	720
Cash-Out Refinance (Only if within 6 months of purchase and all delayed financing exception requirements are met.)	1 Unit	FRM: 70% ARM: 60%	720
Cash-Out Refinance (>6 months since purchase)	1 Unit	Ineligible	N/A

Investment Properties

Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV Ratio 90.01-95.00%	Minimum Credit score
Purchase/Limited Cash-out Refinance	2-4 Units	FRM: 70% ARM: 60% High-Balance FRM: 65% ARM: 60%	720
Cash-Out Refinance (Only if within 6 months of purchase and all delayed financing exception requirements are met.)	2-4 Units	FRM: 65% ARM: 60%	720
Cash-Out Refinance (>6 months since purchase)	2-4 Units	Ineligible	N/A

- Borrower with five to ten financed properties must meet the following eligibility requirements.

Bankruptcy or Foreclosure:

	• Standard FNMA requirements as shown above, apply (effective DU 9.2 Version scheduled to be released the weekend of December 13, 2014). *Minimum Reserve Requirements* • 5-10 financed properties: Six (6) months for each second home or investment property. *Mortgage Delinquencies:* • Standard FNMA requirements as shown above, apply (effective with DU 9.2 Version scheduled to be released the weekend of December 13, 2014). *Rental Income:* • See Rental Income Section of this product matrix.
NON-ARM'S LENGTH/IDENTITY OF INTEREST **Back to Table of Contents**	• 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. FNMA allows non-arm's length transactions for the purchase of existing properties unless forbidden for the particular scenario, such as delayed financing. • Purchase of newly constructed properties, if borrower has a relationship or business affiliation (any ownership interest, or employment) with builder, developer, or seller of the property, purchase loans secured by a principal residence. • Newly constructed homes secured by a second home or investment property is not allowed if borrower has a relationship or business affiliation with builder, developer, or seller of the property.
PROPERTY/ APPRAISAL REQUIREMENTS **Back to Table of Contents**	• Full Appraisal Required, interior & exterior inspection. 1004 for SFR, 1025 for 2-4 Units. • 1007 Single Family Comparable Rent Schedule required for rental 1 unit investment properties. • 1073 for Condominium Unit Appraisal Report. • Transferred appraisals require AIR Certification and TIL from previous lender.
Condominiums (Limited Review-Attached) **Back to Table of Contents**	*Limited Review Attached Units in Established Condo Projects (For Projects Outside of Florida) Including 2- to 4-unit Condo Projects:* • Must be located in either an attached unit in an established condo project, including 2-4 unit condo projects, or a detached unit in a new or established condo project (including those projects with a mixture of attached and detached units). • In completing a Limited Review, the underwriter must ensure that the project and subject unit meet all of the eligibility requirements as follows: o Project is not an ineligible project. o Project does not consist of Manufactured Homes. o If the project is a detached unit, the unit securing the mortgage must be 100% complete. o The appraisal of the subject unit meets all applicable appraisal requirements, as stated in the FNMA Seller Guide. o https://www.fanniemae.com/singlefamily/originating-underwriting o The unit securing the mortgage satisfies all insurance requirements as stated in FNMA Seller Guide. o Subject to DU Approve/Eligible. • We do not need to validate that the project also meets the eligibility

requirements of another project review type as long as long as the project meets the above criteria.

- However, in the even the underwriter becomes aware of a circumstance that would cause the project or transaction to be ineligible under a Limited Review, we must use one of the other project review methods to determine project eligibility and the project must meet all of the eligibility requirements of that selected alternate project review type.
- New attached condo projects are not allowed.

Eligible Transactions – For Limited Review Attached Units in Established Condo Projects (For Projects Outside of Florida) – Including 2- to 4-unit Condo Projects	
Occupancy Type:	Maximum LTV, CLTV, and HCLTV Ratios
Principal residence	90% Revised 07/28/15
Second Home	75%
Investment Property	Ineligible for Limited Review

- The Limited review must have been completed within 180 days prior to the note date.

Condominiums- Attached <u>New, Established, or Two-to Four-Unit Condo Projects</u> - Full Review

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- The Full Review process is another method for the review of new and established condo projects. All applicable eligibility requirements must be met.
- The Full Review is required when the unit securing the mortgage is an attached unit located in one of the following project types:
  - an established condo project, or
  - a new or newly converted condo project
- Condo Project Manager (CPM) may be used to **assist** in the Full Review of a project. Underwriter is still responsible to review all requirements of the Full Review Process. CPM is an additional tool to assist in determining if the project meets Fannie Mae's eligibility requirements.

<u>For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</u>

- When determining the eligibility of a condo project on the basis of a Full Review, we must ensure the condo project meets the eligibility requirements described in the following items.
- The project must not be an ineligible project.
- The project must not be a manufactured housing project.
- The unit securing the mortgage satisfies all Fannie Mae's insurance requirements in Subpart B7, Insurance, including all provisions applicable to condo projects in Subpart B7-4, Additional Project Insurance.
- The appraisal of the subject unit must meet all applicable appraisal requirements, as stated in Subpart B4-1, Appraisal Requirements.
- No more than 15% of the total units in a project may be 60 days or more past due on their common expense assessments (also known as HOA dues). For example, a 100–unit project may not have more than 15 units that are 60 days or more past due.
- **Note:** In a two- to four-unit project, no unit owners may be 60 or more days past due on their HOA common expense assessments.
- This ratio is calculated by dividing the number of units with common

	expense assessments that are past due by 60 or more days by the total number of units in the project. • Underwriters must review the HOA projected budget to determine that it is adequate (i.e., it includes allocations for line items pertinent to the type of condo project), and provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget. • To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, the lender must divide the annual budgeted replacement reserve allocation by the association's annual budgeted assessment income (which includes regular common expense fees). • The following types of income may be excluded from the reserve calculation: o incidental income on which the project does not rely for ongoing operations, maintenance, or capital improvements; o income collected for utilities that would typically be paid by individual unit owners, such as cable TV or Internet access; o income allocated to reserve accounts; and o special assessment income. • The Underwriter may use a reserve study in lieu of calculating the replacement reserve of 10% provided the following conditions are met: o the underwriter obtains a copy of an acceptable reserve study and includes his/her analysis of the study in the project approval file, o the study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae's standard reserve requirements, o the study demonstrates that the project's funded reserves meet or exceed the recommendations included in the reserve study, and o The study meets Fannie Mae's requirements for replacement reserve studies listed at the end of this section. • **Note:** These requirements for a budget review, replacement reserves, and reserve study are not applicable to two- to four-unit projects. • For projects in which the units are not separately metered for utilities, the underwriter must determine that having multiple units on a single meter is common and customary in the local market where the project is located, and confirm that the project budget includes adequate funding for utility payments. • **Note:** These requirements are not applicable to two- to four-unit projects. • The project must be located on contiguous parcels of land. It is acceptable for a project to be divided by public or private streets. • The structures within the project must be within a reasonable distance from each other. • Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace. • Unit owners in the project must have the sole ownership interest in, and rights to the use of the project's facilities, common elements, and limited common elements, except as noted below.

	• Shared amenities are permitted only when two or more HOAs share amenities for the exclusive use of the unit owners. The associations must have an agreement in place governing the arrangement for shared amenities that includes the following: o a description of the shared amenities subject to the arrangement; o a description of the terms under which unit owners in the project may use the shared amenities; o provisions for the funding, management, and upkeep of the shared amenities; and o provisions to resolve conflicts between the associations over the amenities. • Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools. • The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the HOA and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable. • Fannie Mae permits the financing of a single or multiple parking space(s) with the mortgage provided that the parking space(s) and residential unit are included on one deed as evidenced on the legal description in the mortgage. In such cases, the LTV, CLTV, and HCLTV ratios are based on the combined value of the residential unit and the parking space(s). • Phase I and II environmental hazard assessments are not required for condo projects unless the review identifies an environmental problem through the performance of its project underwriting or due diligence. In the event that environmental problems are identified, the problems must be acceptable, as described in Suggested Format for Phase I Environmental Hazard Assessments. • For investment property transactions on attached units in established projects (including two- to four-unit projects), at least **50% of the total units in the project must be conveyed to principal residence or second home purchasers**. This requirement does not apply if the subject mortgage is for a principal residence or second home. • Financial institution-owned REO units that are for sale (not rented) are considered owner-occupied when calculating the **50% owner-occupancy ratio requirement**. • If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner. • “Gut rehabilitation” refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components (unless the HVAC and electrical components are up to current code). • For a conversion that was legally created during the past three years, the architect’s or engineer’s report (or functional equivalent), that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful

	life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc. • **Note:** If the project is a newly converted non-gut rehabilitation project with more than four residential units we must submit the project to Fannie Mae for review and approval. o For newly converted two- to four-unit non-gut rehabilitation projects, the following requirements apply: o All rehabilitation work involved in a condo conversion must have been completed in a professional manner. o A current reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components. o The project budget must contain line items for the following: ▪ reserves that adequately support the costs identified in the reserve study, even if the study recommends budgeting reserves greater than 10% of the project's income; ▪ funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within 5 years from the date of the study must be deposited in the HOA's reserve account, in addition to the amount stated immediately above; and ▪ a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered. ▪ **Note:** Newly converted gut rehabilitation projects must follow the standard gut rehabilitation requirements listed under the eligibility requirements above.
Condominiums – Additional Eligibility For Attached Units in New and Newly Converted Condo Projects Back to Table of Contents	• Full Review (completed with or without using Condo Project Manager (CPM), or Fannie Mae Review through the Standard Project Eligibility Review Service (PERS) process. **Revised 11-10-15** • The project, or the subject legal phase, must be "substantially complete" unless other completion arrangements have been approved by Fannie Mae through the PERS review process. • Please be advised that there is a cost associated with the FNMA Approval Process and will be subject to Management approval. https://www.fanniemae.com/content/fact_sheet/pers-_overview.pdf/ • There may not be more than one legal phase per building. • Substantially complete" means that o a certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and o all the units and buildings in the legal phase in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances. • **Note:** Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, counter tops, or light fixtures that are common and customary for the market, although buyer selections that involve the modification of a unit floor plan must be complete. Obtain appropriate documentation to verify that all buyer

	selection items for the unit being financed are properly installed prior to closing. • **Two- to four-unit projects:** All units, common elements, and facilities within the project must be 100% complete and not subject to additional phasing even when the project is a new or newly converted project. • At least 50% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers o For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers. o For the purposes of this review process, a project consisting of one building cannot have more than one legal phase. • **Two- to four-unit projects:** All but one unit in the project must have been conveyed or be under contract for sale to a principal residence or second home purchaser. • Individual units in new condo projects must be available for immediate occupancy at the time of loan closing. **<u>Not Applicable to Two- to Four-Unit Condo Projects</u>** • If the project is part of a larger development, and the unit owners are required to pay monthly assessments of more than $50 to a separate master association for that development, lenders must review the overall development plan for the master association to evaluate the acceptability of the project. • The overall development plan of the project must be reviewed and the following must be acceptable: o consistency of future and existing improvements, o time limitations for expansion, and o reciprocal easements between legal phases. • For projects (or the subject legal phase) that are only substantially complete rather than 100% complete, lenders must determine that acceptable completion assurance arrangements that guarantee the future completion of all project facilities, common elements, and limited common elements have been provided. These assurance arrangements may include; o cash deposits, o letters of credit, o assignments of certificates of deposit, or o assignments of other assets that can be easily converted to cash. • Similar arrangements must be provided to support assurances against construction and structural defects. The assurances must; o protect each unit against defects that become apparent within one year from the date of its settlement, and o cover all common facilities for one year from the date on which units that represent at least 60% of the votes in the HOA have been transferred. • The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project.

- The project must meet the condo project legal document requirements in the following section.

Condo Project Legal Document Review Requirements for Attached Units in New or Newly Converted Projects

- The table below provides Fannie Mae's requirements for the review of the condo project's legal documents for attached units in new and newly converted condo projects containing more than four residential units.

Limitations on Ability to Sell/ Right of First Refusal	• Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to: o foreclose or take title to a condo unit pursuant to the remedies in the mortgage, o accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or o sell or lease a unit acquired by the mortgagee or its assignee.
Rights of Condo Mortgagees and Guarantors	• The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condo project the right to timely written notice of: o any condemnation or casualty loss that affects either amaterial portion of the project or the unit securing its mortgage; o any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage; o lapse, cancellation, or material modification of any insurance policy maintained by the homeowners' association; and o any proposed action that requires the consent of a specified percentage of mortgagees.
First Mortgagee's Rights Confirmed	• No provision of the condo project documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condo units and/or common elements.
Amendments to Documents	• Required provisions related to

	amendments to project documents are as follow: o The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages. o The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51 of the votes of the unit estates that are subject to mortgages. o The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested. Notwithstanding the foregoing, project documents that were recorded prior to August 23, 2007, may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 30 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested.
Condominiums – Properties in Florida **Back to Table of Contents**	**Florida — Attached Units in New and Newly Converted Condo Projects** • PERS (FNMA Approval) is required for new and newly converted condo projects consisting of attached units located in Florida. • Please be advised that there is a cost associated with the FNMA Approval Process and will be subject to Management approval. • The following project review methods may not be used to review these types of projects in Florida: o Limited Review, or o Full Review (with or without CPM).

	Florida — Project Review Maximum LTV Requirements for Attached Units in New, Newly Converted, and Established Projects • The following tables describe the maximum LTV ratios that are permitted for the specific project review type for loans secured by units in condo projects located in Florida. Unless noted otherwise, these requirements are based on the LTV ratio of the mortgage loan.

Florida — Attached Units in New and Newly Converted Condo Projects Maximum LTV Ratios

	PERS Approved	Full Review (with or without CPM)	Limited Review
Principal Residence	95% Manual 97% DU	Not Eligible	
Second Home	90%		
Investor	85%		

• Refer to the *Eligibility Matrix* for the maximum allowable CLTV and HCLTV ratios.

Florida — Attached Units in Established Condo Projects

	Maximum LTV Ratios		Maximum LTV, CLTV, and HCLTV Ratios
	PERS Approved	Full Review (with or without CPM)	Limited Review
Principal Residence	95% Manual 97% DU		75/90/90%
Second Home	90%		70/75/75%
Investor	85%		Not Eligible

• Refer to the *Eligibility Matrix* for the maximum allowable CLTV and HCLTV ratios.

Condominiums (Ineligible Projects) **Back to Table of Contents**	• Ineligible Projects: Refer to Selling Guide – B4-2.1-02. https://www.fanniemae.com/singlefamily/originating-underwriting
Condominium Projects that require FNMA to approve the project (PERS) **Back to Table of Contents**	• The following projects must be submitted to FNMA for project approval (branch and/or broker must submit the project to FNMA for approval): New and newly converted condo projects consisting of attached units located in Florida; new and newly converted, non-gut rehabilitation condo projects. PERS approval must be valid (unexpired) as of the note date. Maximum LTV limits for Attached units in New and Newly converted condo projects in Florida are: o Principal Residence 97% LTV with DU Approve/Eligible Decision. o Second Home 90% LTV o Investment 85% LTV. • Please be advised that there is a cost associated with the FNMA Approval Process and will be subject to Management approval. https://www.fanniemae.com/content/fact_sheet/pers-overview.pdf/

Condominium codes to be entered on FNMA 1008 Transmittal Back to Table of Contents	<table><tr><th>Project Type Code</th><th>Description</th></tr><tr><td>**E**</td><td>Established PUD Project</td></tr><tr><td>**F**</td><td>New PUD Project</td></tr><tr><td>**P**</td><td>Limited Review – New Condo</td></tr><tr><td>**Q**</td><td>Limited Review - Established</td></tr><tr><td>**R**</td><td>Full Review with CPM – New Condo Project</td></tr><tr><td>**S**</td><td>Full Review with CPM – Established Condo Project</td></tr><tr><td>**T**</td><td>Fannie Mae Review – Condo Project that Received a Final Project Approval through PERS using the standard or streamlined process (including projects consisting of manufactured housing submitted under the standard process). **Revised 11/10/15**</td></tr><tr><td>**V**</td><td>DU Refi Plus loans secured by a property in a condo project. **Revised 11/10/15**</td></tr><tr><td>**1**</td><td>Full review – Co-op Project (Not allowed per RB policy)</td></tr><tr><td>**2**</td><td>Fannie Mae Review through PERS – Co-op project. (Not allowed per RB policy).</td></tr></table>
Condominium-project review methods Back to Table of Contents	<table><tr><th>Unit and Project Type</th><th>Project Review Methods</th></tr><tr><td>Attached condo unit in a new or newly converted project, including an attached unit in a condo project that includes a mixture of attached detached units.</td><td>Full Review (CPM Review) or Fannie Mae Review through the Project Eligibility Review Service (PERS). Process. **Revised 11/10/15**</td></tr><tr><td>Attached condo unit in an established project, including an attached unit in a condo project that includes a mixture of attached and detached units.</td><td>Based on the LTV, CLTV, and HCLTV ratios, occupancy, and location (projects in Florida), these projects may be reviewed using a Limited Review. Projects not meeting the Limited Review criteria must be reviewed using a • Full Review (with or without CPM), or • Fannie Mae Review through the streamlined PERS process (for established condo projects). **Revised 11/10/15**</td></tr><tr><td>Detached condo unit in a new or established project, including a detached unit in a condo project that includes a mixture of attached and detached units.</td><td>Limited Review, or Fannie Mae Review through the streamlined PERS process (for established condo projects). ***Note:*** There are no LTV ratio or occupancy restrictions for Limited Review eligibility for detached units. **Revised 11/10/15**</td></tr><tr><td>Attached or detached unit in a new or established two-to-four-unit condo project.</td><td>Based on the mortgage transaction and project characteristics, two-to-four-unit condo projects may be</td></tr></table>

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<tr><td></td><td>reviewed using a Limited Review. Projects not meeting the Limited Review criteria must be reviewed using a:
• Full Review (with or without CPM), or
• Fannie Mae Review through the streamlined PERS process (for established condo projects). Revised 11/10/15</td></tr>
<tr><td>Unit in a co-op project.</td><td>Per RB policy - Not allowed.</td></tr>
<tr><td>• Condo or Co-Op project that contains manufactured Homes.
• PUD project that contains single-wide manufactured homes.
• Newly-converted non-gut rehabilitation condo and co-op projects (projects with attached units only) that contain more than four residential units. Note: Co-op projects not allowed per RB policy. Revised 11/10/15.
• New or newly converted condo project consisting of attached units located in Florida.</td><td>Fannie Mae Review through the standard PERS process. Note: Condo or Co-Op that contains manufactured homes is not allowed per RB policy. Revised 11/10/15</td></tr>
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<td>Leasehold Properties

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<td>• Not allowed.</td>
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<td>Planned Unit Development (PUD) Project

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<td>• A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners.
• For a project to qualify as a PUD for the purposes of this policy, all of the following requirements must be met:
o each unit owner’s membership in the HOA must be automatic and non-severable,
o the payment of assessments related to the unit must be mandatory,
o common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners, and
o the subject unit must not be part of a condo or co-op project.
• Zoning is not a basis for classifying a project or subdivision as a PUD. Units in projects or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects under Fannie Mae’s policies. These projects
o have no common property and improvements,
o do not require the establishment of and membership in an HOA, and
o do not require the payment of assessments.
• Underwriter no longer need to consult the ineligible projects characteristics list when reviewing loans secured by attached PUD units.</td>
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QUALIFYING RATE Back to Table of Contents	• Qualify at Note Rate. • 5/1 ARM - qualifies at the greater of the start rate + 2% OR the fully indexed rate (index + margin) • 7/1 ARM qualifies at the note rate
REFINANCE TRANSACTIONS Back to Table of Contents	• The act of paying off an existing loan using the funding gained from a new loan which uses the same property as security.
Cash-Out Transaction Back to Table of Contents	• One borrower must have held title to subject property at least 6 months. Measured from previous Note to new application date. • ***Exception:*** Delayed financing applies; property was inherited, borrower on title for a minimum of 24 months. If the property was listed for sale in the past six months, the LTV/CLTV and HCLTV ratios for a cash-out transaction are limited to the lower of 70% or the maximum allowed per the matrices.
Continuity of Obligation Back to Table of Contents	• Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) on the existing mortgage is also a borrower on the new refinance of subject property. • Continuity of obligation does not apply for subject property is borrower purchased the property with cash or when any prior mortgage for which borrower was an obligor was paid in full. • All time period references are measured from the date of the event (for example, transfer of title) and end with the disbursement date of the new refinance transaction. • All refinance transaction must comply with the definition above, meet one of the permissible exceptions described below, or comply with the limited eligibility parameters described below. • Permissible Exception: o Borrower on new refinance was added to title 24 months or more prior to disbursement date of new refinance. o Borrower acquired property through an inheritance or was legally awarded property (for example, divorce, legal separation, or dissolution of a domestic partnership). No minimum waiting period with regard to when borrower acquired property before completing a new refinance transaction. o Borrower on new refinance has been added to title through a transfer from a trust, or a limited liability company (LLC), or partnership. Borrower must have been a beneficiary/creator (trust) or a 25% or more owner of the LLC or partnership prior to the transfer, and the transferring entity and/or borrower has had a consecutive ownership (on title) for at least six months prior to disbursement of the new loan. Transfer of ownership from a corporation to individual does not meet continuity of obligation. o Borrower on title at least 12 months but is not obligated on existing mortgage(s) that is being refinanced and borrower meets at least one of the following requirements: ▪ has been residing in the property for at least 12 months.

	▪ paid the mortgage for at least 12 months, or ▪ can demonstrate a relationship with the current obligor (for example, relative or domestic partner). *Continuity of Obligation Requirements Not Met:* • Refinance transactions that do not meet continuity of obligation or a permissible exception must comply with the following LTV/CLTV/HCLTV ratio, based on current appraised value: o Less than six (6) months on Title - Ineligible. o Greater than or equal to six (6) months and less than 24 months: Limited to 50% LTV/CLTV/HCLTV ratios. o Greater than or equal to 24 months: No additional restrictions.
Limited Cash-Out Transactions **Back to Table of Contents**	• Limited cash-out refinance transactions must meet the following requirements: o The transaction is being used to pay off an existing first mortgage loan (including an existing HELOC in first-lien position) by obtaining a new first mortgage loan secured by the same property; or for a single closing construction-to-permanent loans to pay for construction costs to build the home, which may including paying off an existing lot lien. o Paying on subordinate liens used to purchase the property may be paid off and included in the new mortgage. Note: Fannie Mae will waive the prohibition against using the proceeds of a limited cash-out refinance to pay off a loan not used to purchase the property if the loan being paid off is a PACE (Property Accessed Clean Energy) loan. Refer to the FNMA seller guide for details B5-3.4-01. o The transaction must comply with the continuity of obligation requirements. o The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions). o Refer to the FNMA Seller Guide for additional information regarding Limited Cash out transactions. B2-1
Properties in the state of Texas **Back to Table of Contents**	• Refer to FNMA Texas 50(a) (6) Cash-Out Matrix.
Property Listed for Sale **Back to Table of Contents**	• Properties listed for sale within the past 180 days are eligible for rate/term or cash out refinance; however, cash out refinances are limited to 70% LTV. • Properties listed for sale must have been taken off the market at least one day prior to the date of the application.
SECOND HOME TRANSACTIONS **Back to Table of Contents**	***Requirements for Second Home Properties:*** **Revised 11/10/15** • Must be occupied by the borrower for some portion of the year. • Is restricted to one-unit dwellings. • Must be suitable for year-round occupancy. • The borrower must have exclusive control over the property.

	• Must not be rental property or a timeshare arrangement.[1] • Cannot be subject to any agreements that give a management firm control over the occupancy of the property. [1]If the borrower identifies rental income from the property, the loan is eligible for delivery as a second home as long as the income is not used for qualifying purposes, and all other requirements for second homes are met (including occupancy requirements above).