Fannie Mae Fixed Rate

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

Program Qualifications

- Eligible loans are conforming and high balance loans receiving a DU Version 9.2 or later Approve/Eligible.

Maximum Loan Amounts

Conforming Maximum Loan Amounts		
Units	**Continental US**	**Alaska and Hawaii**
1	$417,000	$625,500
2	$533,850	$800,775
3	$645,300	$967,950
4	$801,950	$1,202,925

High-Cost Area (High Balance) Loan Amounts				
Units	**Continental US**		**Alaska and Hawaii**	
	Minimum Loan Amount	Permanent High-Cost	Minimum Loan Amount	Permanent High-Cost
1	$417,001	$625,500	$625,501	$938,250
2	$533,851	$800,775	$800,776	$1,201,150
3	$645,301	$967,950	$967,951	$1,451,925
4	$801,951	$1,202,925	$1,202,926	$1,804,375

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

Eligibility Matrix Loan Amount & LTV Limitations

- *Any references to LTV ratios include LTV, CLTV, and HCLTV ratios, unless otherwise noted.*
- *The Matrices may not include all eligibility criteria applicable to the subject transaction (e.g., maximum loan term).*
    - *Use Matrix 1 for Standard Eligibility Requirements for Conforming and High Balance Loan Amounts **Fannie Mae DU Approve/Eligible***
    - *Use Matrix 2 for Conforming and High Balance Loan Amounts with **5 – 10 financed properties***
    - *Refer to Fannie Mae Conforming Manufactured Home Fixed Rate matrix for specific program guidelines on Manufactured Homes*

Matrix 1

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

Primary Residence, Second Home and Investment

(See Matrix 2 for Conforming and High Balance 5-10 Financed Properties when subject is 2nd Home or Investment)

Transaction Type[1, 2,3]	Occupancy	Units	Amortization and Property Restrictions	Maximum LTV/CLTV/HCLTV[2,4]	Credit Score	Maximum Cash-Back
Purchase & Limited Cash-Out Refinance (LCOR)	Primary Residence	1[3]	Fully amortizing	95/95/95% 97/97/97%[7,8]	620	Ineligible
		2	Fully amortizing	85/85/85%	620	Ineligible
		3 – 4	Fully amortizing	75/75/75%	620	Ineligible
	Second Home	1[3]	Fully amortizing	90/90/90%	620	Ineligible
	Investment	1[3]	Purchase – Fully amortizing	85/85/85%	620	Ineligible
			LCOR – Fully amortizing	75/75/75%	620	Ineligible
		2 – 4	Fully amortizing	75/75/75%	620	Ineligible
Cash-Out Refinance[5,6]	Primary Residence	1[3,5]	Fully amortizing	80/80/80%	620	No limit
		2 – 4[5]	Fully amortizing	75/75/75%	620	No limit
	Second Home	1[3,5]	Fully amortizing	75/75/75%	620	No limit
	Investment	1[3,5]	Fully amortizing	75/75/75%	620	No limit
		2 – 4[5]	Fully amortizing	70/70/70%	620	No limit

Footnotes

1. Borrower with one credit score or borrower without a credit score when borrowing with a scored borrower eligible on primary residence Purchase, Rate & Term 1 unit maximum 95% LTV minimum credit score 620. Refer to *Credit* for specifics. Conforming Limits only. Does not apply to High Balance loans.
2. Refer to other matrices as follows.
   - For Multiple Financed Properties (5-10) refer to Matrix 2
3. Florida condominiums are eligible per FNMA guidelines (see *Property Types*)
4. HCLTV (HELOC CLTV) = first lien balance + total HELOC amount (funded plus unfunded portion) ÷ the lesser of the appraised value or sales price (if applicable).
5. If the property was purchased within the prior six months, the borrower is ineligible for a cash-out refinance transaction unless the loan meets the delayed financing exception. Refer to the *Financing Types - Delayed Financing Exception* for eligibility requirements.
6. If property was listed for sale in the last 6 months the LTV ratios for a cash-out transaction are limited to 70% LTV (or maximum allowed if less than 70% LTV).
7. Effective with submissions/locks **on or after 12/29/14**, LoanStream allows the following FNMA flexibility (LTV ratios greater than 95% up to a maximum of 97%) for **non-MyCommunityMortgage** purchase and rate/term transactions **only:**
   - Standard purchase transactions (non-MCM) if at least one borrower is a first-time home buyer, or
   - Standard limited cash-out refinances (non-MCM) of existing Fannie Mae owned mortgages.
   - **See *97% LTV Options* in *Eligibility Requirements* for further information**
8. LTV, CLTV, and HCLTV Ratios Greater than 95%: These transactions are **not** permitted for high-balance loans or loans with a non-occupant borrower.

Matrix 2
Conforming and High Balance Loan Amounts
5 to 10 financed properties
Subject is Second Home or Investment Property

Transaction Type [1]	Occupancy	Units [1]	Amortization and Property Restrictions	Maximum LTV/CLTV/HCLTV [2]	Credit Score
Purchase & Limited Cash-Out Refinance (LCOR)	Second Home	1 [1]	Purchase and LCOR Fully Amortizing	75/75/75%	720
	Investment	1 [1]	Purchase and LCOR Fully Amortizing	75/75/75%	720
		2-4 [1,4]	Purchase and LCOR Fully Amortizing	70/70/70%[4]	720
Cash-Out [3]	Second Home or Investment	1	Cash-Out Fully Amortizing	Not Allowed unless Delayed Financing Exception: 70/70/70%[3]	720
	Investment	2-4		Not Allowed unless Delayed Financing Exception: 65/65/65%[3]	720

Footnotes

1 Florida condominiums are eligible per FNMA guidelines (see *Property Types*)
2 HCLTV (HELOC CLTV) = first lien balance + total HELOC amount (funded plus unfunded portion) ÷ the lesser of the appraised value or sales price (if applicable).
3 Cash-out is eligible using the Delayed Financing Option ONLY, refer to *Financing Type – Delayed Financing Exception* for eligibility requirements
4 See *HomePath Properties / FNMA REO* for exception up to 75% LTV/CLTV/HCLTV on 2-4 Unit Investment Purchase

Product Description

- Fixed Rate 10, 15, 20 and 30 years
- Fully Amortizing

Product Codes
Conforming Loan Amounts

Years	Product Code
10 Year	CF10 FannieMae
15 Year	CF15 FannieMae
20 Year	CF20 FannieMae
30 Year	CF30 FannieMae

High Balance Loan Amounts

Years	Product Code
15 Year	CF15 Fannie Mae High Balance
30 Year	CF30 Fannie Mae High Balance

Eligibility Requirements

97% LTV Options	LTV, CLTV, and HCLTV Ratios Greater than 95%: These transactions are **not** permitted for high-balance loans or loans with a non-occupant borrower. For First-Time Home Buyers and Limited Cash-Out Refinance of Fannie Mae Loans (FNMA SEL-2014-15) Key Features (apply to all options) Desktop Underwriter (DU) underwriting required 1-unit principal residence (including condos and PUD's; manufactured housing is not eligible) Fixed-rate mortgage with maximum term of 30 years High-Balance Loans are not permitted Reserves (if required by DU) may be gifted Purchase Option for First-Time Home Buyers – Non-MCM First-time home buyer requirement – At least 1 borrower must be a first-time home buyer • Definition – At least one buyer must not have owned any residential property in the past three years. In addition, an individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period. See FNMA Selling Guide for further information. Income Limits – No limit Minimum MI coverage – Not offered by LoanStream. Loan must have standard MI coverage (35%). Pre-purchase home-buyer education and counseling – Not required Post-purchase delinquency counseling – Not required LTV/CLTV/HCLTV Ratios • LTV – 95.01 to 97% • CLTV – 95.01 to 97% if the subordinate lien is not a Community Seconds loan; 105% if the subordinate lien is a Community Seconds loan (approved by LoanStream Mortgage) • HCLTV – 95.01 to 97% Refinance Option (Limited Cash-Out) for an Existing Fannie Mae Loan The underwriter must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from the lender's servicing system, the current servicer (if the lender is not the servicer), from Fannie Mae's Loan Lookup Tool (https://knowyouroptions.com/loanlookup) or any other source as confirmed by the underwriter. NOTE: The underwriter must inform DU that Fannie Mae owns the existing mortgage by indicating "Fannie Mae" in the Owner of Existing Mortgage field on the online loan application. In the Desktop Originator® (DO®)/DU User Interface, this field is located on the Additional Data screen in the Full 1003. Because this indication will be used by DU to determine eligibility of the loan for delivery to Fannie Mae when the LTV, CLTV, or HCLTV exceed 95%; the underwriter will be required to document the loan being refinanced is currently owned by Fannie Mae. All other standard limited cash-out refinance policies apply.
Appraisal Requirements	Standard appraisal requirements apply, plus: • One-Unit Residential Appraisal Field Review Report (Form 2000) or a Two- to Four-Unit Residential Appraisal Field Review Report (Form 2000A), is required if: ○ The property is valued at $1,000,000 or more **and** the LTV, CLTV, or HCLTV ratio is greater than 75% (FNMA B5-1-01) • Form 1007 is required whenever rental income is used to qualify the borrower Property Inspection Waiver is eligible per DU recommendation and FNMA guidelines. Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier. Accessory Units (see *B4-1.3-05*) An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property. See FNMA Selling Guide for additional requirements.

	<u>Additions without Permits</u> If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property. <u>Mixed-Use Properties (See *B2-3-04, B4-1.4-07)*)</u> Properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office are eligible per the following: • Property must be a one-unit dwelling that the borrower occupies as a principal residence • The borrower must be both the owner and the operator of the business • The property must be primarily residential in nature • The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property. The appraisal for a mixed use property must: • Provide a detailed description of the mixed-use characteristics of the subject property; • Indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements; • Report any adverse impact on marketability and market resistance tot eh commercial use of the property; and • Report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.
Assets	Evaluated per DU and Fannie Mae guidelines with the following restrictions • Stand-alone VOD (Verification of Deposit) is ineligible. Complete copy of a recent bank statements covering a two-month period. <u>Stocks, Bonds, and Mutual Funds (SEL-2015-07, B3-4.3-01)</u> Fannie Mae is updating the policies related to the use of vested stocks, bonds, and mutual funds (including retirement accounts) when they are used for down payment, closing costs, and reserves. Instead of requiring a standard reduction in value, the policies have been simplified as follows: • One hundred percent (100%) of the value of the asset is allowed when determining available reserves. • If the underwriter documents that the value of the asset is at least 20% more than the funds needed for the borrower's down payment and closing costs, no documentation of liquidation is required. Otherwise, documentation of the borrower's actual receipt of funds realized from the sale or liquidation must be obtained. Note: Non-vested assets are not eligible for down payment, closing costs, or reserves. <u>Bank statements used to verify assets (B3-4,2-01 and SEL 2015-06)</u> 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 <u>account activity</u> must be reviewed. <u>Depository Accounts</u> Funds held in a checking, savings, money market, certificate of deposit, or other depository account may be used for the down payment, closing costs, and financial reserves. Any indications of borrowed funds must be investigated. Unverified funds are not acceptable for the down payment, closing costs, or financial reserves. <u>Business Assets</u> Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves when a borrower is self-employed and the individual federal income tax returns have been evaluated by the underwriter, including, if applicable, the business federal income tax returns for that particular business (non-Schedule C). The borrower must be listed as an owner of the account and the account must be verified in accordance with FNMA Selling Guide (B3-4.2-01 *Verification of Deposits and Assets*). The underwriter must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. (See B3-3.2 *Self-Employment Income* for additional information on analysis of a self-employed borrower.) <u>Bank Statements and Large Deposits (B3-4.2-02)</u> When bank statements (typically covering the most recent two months) are used, the underwriter must evaluate large deposits, which are defined as a **<u>single deposit that exceeds 50% of the total monthly qualifying income</u>** for the loan. Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.

Transaction Type	Evaluation Requirements
Refinance transactions	Documentation or explanation for large deposits is **not** required [by FNMA]; however, the underwriter remains responsible for ensuring that any borrowed funds, including any related liability, are considered.

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

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

<u>Sales Proceeds Needed for Down Payment and Closing Costs (B3-4.3-10)</u>
If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, the underwriter must verify the source of funds by obtaining a copy of the final Settlement Statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home.

<u>Like-Kind Exchanges</u>
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.

<u>Cash Value of Life Insurance (B3-4.3-19)</u>
If an insurance company payout is used for the <u>down payment</u> or <u>closing costs</u>, the underwriters must document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. It the cash-value of the life insurance is being used for <u>reserves</u>, the cash-value must be documented but does not need to be liquidated and received by the borrower.

Borrower Investment

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

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

- Primary Residence and Second Homes
    - 3% for LTV/CLTV > 90%

	• 6% for LTV/CLTV > 75% ≤ 90% • 9% for LTV/CLTV ≤ 75% • Investment Properties • 2% at all LTV/CLTV's Gifts • Primary Residence and Second Homes • Eligible provided the required Borrower investment is met • Waive Borrower investment when gift funds reduce the LTV/CLTV to 80% or less • Investment Properties • Gift ineligible Reserves • Additional reserves may be required by DU based on risk • Cash-Out Refis – The cash proceeds from a cash-out refinance transaction on the subject property may not be used to meet the reserve requirement. (Cash proceeds from a cash-out refinance of another property that is not the subject property are an acceptable source of reserves.)(B3-4.1-01) Primary Residence • 1 – 4 units – Per DU • Note: DU now requires a minimum of 6 months reserves for 2-4 unit principal residence transactions. Second Homes (all transaction types) • Per DU, typically 2 months PITIA Investment Properties (all transaction types) • Per DU, typically 6 months PITIA <u>Manual Reserve Calculations for Specific Transactions</u> In certain cases, DU is unable to determine the reserve requirements for the transaction, therefore the underwriter must perform a manual calculation of the required minimum reserves. To determine the total amount of assets to be verified for the transaction, the underwriter will be required to add the amount of Total Funds to be Verified (as specified in the DU Underwriting Findings report) to the minimum reserve requirements specified in the Fannie Mae Selling Guide for the following scenarios: • Principal residence transactions where the current principal residence is pending sale, converting to a second home, or converting to an investment property; and • Second home and investment property transactions for borrowers who will have 2-10 financed properties. The total amount of assets to be verified, per the guidance above, must be reflected in the Asset section of the loan application. Note: Fannie Mae has <u>eliminated the requirements</u> specifically associated with the conversion of a principal residence to a second home or investment property (e.g., no need to document equity, provide lease agreement, copy of security deposit, bank statement with deposited security funds). (SEL-2015-07) Additional requirements and reserves may apply for second home and investment transactions for borrowers who will have 2 – 10 financed properties(including the subject property): • If the total number of financed properties is 2 to 4 financed properties, then additional reserves are 2 months for each second home or investment property • If the total number of financed properties is 5 to 10 financed properties, then additional reserves are 6 months for each second home or investment property See Fannie Mae Selling Guide for additional information (B3-4.1-01 Minimum Reserve Requirements, B2-2-03, Multiple Financed Properties for the Same Borrower) Refer to Section *Limitations on Other Real Estate Owned* for additional reserve requirements. **Mortgage insurers reserve eligibility requirements may supersede those listed above.**
Assumptions	**Ineligible**
Borrower Eligibility	Eligible • US Citizen • Permanent resident alien • Non-permanent resident alien (maximum 80% LTV/CLTV/HCLTV on 1-unit primary residence only; other restrictions apply) • Inter Vivos Revocable Trust (FNMA B2-2-05) • Note: A Power of Attorney is not allowed on properties held in a trust • When a loan is made to an inter vivos trust that is secured by a property other than an investment property that fits within the "business purpose" definition for an exempt loan under TILA, it will be treated as an ATR Covered loan (i.e., Points and Fees limitations apply) Ineligible • Foreign Nationals

Co-borrowers	DU Approve/Eligible • Ratios determined by DU • Non-occupant borrower eligible per DU (See restriction below) *Restriction: Non-occupant borrower is not allowed on loans where any borrower has only one score or no score, or on a primary residence refinance loan where the borrower is exercising the delayed financing exception.* Non-occupant borrowers are not allowed on loans with LTV/CLTV/HCLTV > 95%

Credit	DU Approve/Eligible findings only
	• Refer to *Loan Amount and LTV Limitations* for minimum credit score requirements
	• Housing (Mortgage/Rental) Payment History (PITIA) is inclusive of all liens regardless of position, as well as all occupancy types.
	    • Mortgage history evaluated by DU
	    • Mortgage/Rental Delinquencies – Loans are ineligible with one or more mortgage/rental delinquencies of 60, 90, 120, 150 days or greater reported within 12 months of the date of the credit report..
	
	<u>Allowable Age of Credit Documents</u>
	Credit documents include credit reports and employment, income, and asset documentation. For all mortgage loans (existing and new construction), the credit documents must be no more than four months old on the note date (B1-1-03). When consecutive documents are in the loan file, the most recent document is used to determine the age. For example, when two consecutive monthly bank statements are used to verify a depository account, the most recent bank statement must be dated within four months of the note date (B1-1-03).
	Per Fannie Mae, the "<u>note date</u>" is the date on the note itself at the top of the document. It may not necessarily be the date on which the note was signed.
	
	<u>Disputed Credit Report Tradelines (B3-5.3-09)</u>
	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, and state that the underwriter must confirm the accuracy and completeness of the information reported on the borrower's credit report for the disputed tradeline. If it is determined that the disputed tradeline information is accurate and complete, the underwriter must ensure the disputed tradelines are considered in the credit risk assessment by obtaining a new credit report with the tradeline no longer reported as disputed and resubmitting the loan casefile to DU. LSM does not allow manually underwriting the loan. (overlay). See B3-5.3-09 for scenario examples of when we would not need to update credit report.
	
	If DU does not issue the disputed tradeline message, LSM only required to ensure the payment for the tradeline, if any, is included in the debt-to-income ratio if the account belongs to the borrower.
	
	Credit Scores – Normally all borrowers must have at least two credit scores
	
	For Primary Residence purchase and rate/term financing flexibilities apply as follows.
	• One borrower on every loan must have a credit score except for High Balance loans.
	• On High Balance loans all borrowers on the loan must have at least one credit score.
	• Loans > 80% LTV with one or no score borrowers are subject to Mortgage Insurers requirements for eligibility.
	• Borrower with one credit score or borrower without a credit score (see below) eligible on primary residence Purchase, Rate & Term 1 unit maximum 95% LTV minimum credit score 620.
	    • **Borrower with one credit score is eligible as follows.**
	        • DU Approve/Eligible decision required
	        • Credit data is available from one repository and credit score is obtained from that repository
	        • A three in-file merged credit report was ordered
	
	    • **Borrower without a credit score is eligible if at least one other borrower has one credit score and all conditions are met as follows.**
	        • DU Approve/Eligible decision required
	        • Primary residence 1-unit only and all borrowers will occupy the property
	        • Transaction is purchase or limited cash-out refinance
	        • Borrower with traditional credit and a credit score is contributing more than 50% of the qualifying income
	        • Self-employed income is ineligible to be used to qualify on the loan when any borrower on the transaction is without a credit score
	        • Loan is not a High Balance loan

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

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

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

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

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

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy – Chapter 7 or 11	4 years	2 years
Bankruptcy – Chapter 13	• 2 years from discharge date • 4 years from dismissal date	• 2 years from discharge date • 2 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure[1]	7 years	3 years Additional requirements after 3 years up to 7 years: • 90% maximum LTV ratios[2] • Purchase, principal residence • Limited cash-out refinance, all occupancy types
Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account	4 years	2 years

[1] When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the underwriter may apply the bankruptcy waiting period if the underwriter obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.
[2] References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the *Eligibility Matrix*.

Note: Check with mortgage insurance company guidelines, if applicable, since not all insurers follow the shorter waiting periods offered above.

Ineligible
- Manual Underwriting

Documentation

Document as determined by DU Findings, FNMA Selling Guide and LSM guidelines
LSM will accept digitally signed documents per FNMA guidelines.

Power of Attorney is not allowed on any of the following:
- Properties held in trust
- Cash Out refinance transactions

	A copy of the divorce decree is required when the loan file indicates income or liability due to divorce.
Escrow Waivers	Property tax and insurance escrows may be waived for LTV ≤ 80%. Individual state laws may supersede this requirement. **Escrow Accounts Required (FNMA B2-1.2-02 & 2-03):** Escrow accounts are required on all rate/term refinance transactions when real estate taxes are financed into the loan. Escrow accounts are required on all cash out refinance transactions when the new loan amount includes the financing of real estate taxes that are more than 60 days delinquent. The requirement may be superseded by state law to the extent certain states limit escrow requirements.

Financing Types	Purchase Mortgages
	
	Rate and Term Refinance/Limited Cash Out Refinance
	• Settlement Statement(s) required from any transaction within past 6 months. If previous transaction was a cash-out or if it combined a first and non-purchase money subordinate into a new first, loan to be coded cash out. If new transaction combines a first and non-purchase money subordinate into a new first loan, it is considered cash out.
	• Pay off of the existing first mortgage (including an existing HELOC in first-lien position)
	• Pay off of existing subordinate liens that were used in whole to acquire the subject property
	• Closing costs and prepaid items may be financed into loan amount
	• Cash out limited to the lesser of 2% of the principal amount of the new loan or $2000
	• Note: Per SEL 2016-02 FNMA has eliminated its Continuity of Obligation policy
	• Properties listed for sale (B2-1.2-02)
	    ○ The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and
	    ○ The borrowers must confirm their intent to occupy the subject property (for principal residence transactions)
	    ○ Disbursement Date is the date loan funds are disbursed for the subject mortgage. The disbursement date may occur on or after the note date.
	• Refinances to Buy Out An Owner's Interest
	    ○ A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.
	        ▪ All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in cases in recent inheritance, documentation must be provided to indicate joint ownership by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
	        ▪ Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing.
	• Owner occupied properties located in Texas with new or existing Texas Section 50 (a)(6) loans are eligible.
	        ▪ If the first or second Texas Section 50(a)(6) loan is being paid off, regardless of whether the borrower is getting any cash back, the loan is restricted to the Texas Home Equity Section 50(a)(6)
	        ▪ If the first mortgage is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6), the second lien may be subordinated and is considered a rate and term refinance. The second lien must be subordinate to the first mortgage and a subordination agreement must be executed. Borrower cannot receive any cash back from first mortgage transaction.
	        ▪ If a Texas Section 50(a)(6) second lien is being paid off, the loan is restricted to the Texas Home Equity Section 50(a)(6).
	        ▪ The title policy will reference the Texas Section 50(a)(6).
	
	Ineligible for Rate and Term/ Limited Cash Out Refinance (B2-1.2-02)
	When the following conditions exist the loan is not eligible for limited cash out refinance:
	• No outstanding first lien on the subject property
	• Proceeds used to pay off a subordinate lien that was not use in its entirety to purchase the property
	• Borrower finances the payment of real estate taxes for the subject property in the loan amount, but does not establish an escrow account
	• Borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount
	• A short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or any refinance of that loan within six months.

	Cash-Out Refinance (B2-1.2-03)
	Cash-Out refinance transactions must meet the following requirements:
	• The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
	• The property must have been purchased (or acquired) by the borrower at least six months prior to the disbursement date of the new mortgage loan except for the following:
	    ○ There is no waiting period if the underwriter documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
	    ○ The delayed financing requirements are met. See *Delayed Financing Exception* below.
	• Note: Per SEL 2016-02 FNMA has eliminated its Continuity of Obligation policy
	• If the new loan amount includes the financing of real estate taxes that are more than 60 days delinquent an escrow (impound) account is <u>required</u>, unless requiring an escrow account is not permitted by applicable law or regulation. For example, if a particular state law does not allow a LSM to require an escrow account under certain circumstances, the loan will still be eligible without an escrow account. (See *Escrow Waivers*)
	• Properties listed for sale in the six months preceding the disbursement date of the new mortgage loan are limited to 70% LTV/CLTV/HCLTV ratios (or less if mandated by the specific product, occupancy, or property type – for example, 65% for manufactured homes).
	    ○ NOTE: Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage.
	• Investor and second home borrowers with five to ten financed properties are ineligible for cash-out refinance transactions unless all of the delayed financing exception requirements are met. Additional restrictions apply. Delayed Financing Exception is not allowed for High Balance loans with 5 – 10 financed properties.
	• Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date the installment land contract was executed are ineligible.
	• Owner occupied properties located in Texas with new or existing Texas Section 50 (a)(6) loans are eligible.
	        ▪ If the first or second Texas Section 50(a)(6) loan is being paid off, regardless of whether the borrower is getting any cash back, the loan is restricted to the Texas Home Equity Section 50(a)(6).
	
	If the existing mortgage is a "restructured" mortgage", the subsequent refinance of this restructured mortgage MAY be eligible for a limited cash out or cash-out refinance with 24 month on time payment history on the restructured loan (see B2-1.4-02 for details)
	
	<u>Payoff or Paydown of Debt for Qualification</u> – See *Underwriting*
	
	<u>*Delayed Financing Exception* (FNMA B2-1.2-03)</u>
	Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met:
	    ○ The original purchase transaction was an arms-length transaction
	    ○ For this refinance transaction the borrower(s) must meet Fannie Mae's and LSM borrower eligibility requirements. The borrower(s) may have initially purchased the property as one of the following:
	        ▪ A natural person;
	        ▪ An eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
	        ▪ An eligible land trust when the borrower is the beneficiary of the land trust; or
	        ▪ An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%
	    ○ The original purchase transaction is documented by a Settlement Statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed [or similar alternative] confirming the amount paid by the grantee to trustee may be substituted for a Settlement Statement if a Settlement Statement was not provided to the purchaser at time of sale.)
	    ○ The preliminary title search or report must confirm that there are no existing liens on the subject property
	    ○ The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property)
	    ○ If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the Settlement Statement for the refinance transaction must reflect that all cash-out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the property. Any payments on the balance remaining

	from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. ▪ Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan • The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for the transaction based on the current appraised value) • All other cash-out refinance eligibility requirements are met and cash-out pricing is applied. • NOTE: Investor and second home borrowers with five to ten financed properties are ineligible for cash-out refinance transactions unless all of the delayed financing exceptions requirements listed above are met. Additional restrictions apply. (See FNMA B2-2-03) • Delayed Financing Exception is not allowed for **High Balance loans** where borrower has 5-10 financed properties and the subject is investment or second home **Note: Per SEL 2016-02 FNMA has eliminated its Continuity of Obligation policy** **Construction-to-Permanent Financing** ***(See FNMA B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions)*** LoanStream will not allow "single-closing" loans that meet FNMA "single-closing" parameters listed in the Selling Guide. Single-closing transactions are processed as purchases or limited cash-out refinances.
Geographic Locations/Restrictions	Eligible states are as follows: • AZ, CA, CO, FL, GA, IL, IN, LA, MD, MA, MI, MN, NV, NJ, NM, OK, OR, TX, UT and WA • **Note:** Texas Cash-out 50(a)(6) loans are eligible. ○ FNMA has issued a new Texas Home Equity Affidavit and Agreement (Form 3185) which has been updated to reflect new disclosure requirements under TILA and RESPA and removes references to the HUD-1 Settlement Statement. The underwriters are required to use this form for mortgage loans with application dates on or after the effective date of TRID published by the CFPB. State specific regulatory requirements supersede all underwriting guidelines set forth by LSM.
High-Cost Mortgage Loans	LSM does not originate or purchase high-cost mortgage loans (12 CFR 1026.32)
HomePath Properties / FNMA REO	See *B5-4-08 Loans Secured by HomePath Properties* A HomePath property is a property that was owned and sold by Fannie Mae through a transaction resulting in the disposition of its real estate owned (REO). When the property secured by the mortgage is a HomePath property, Fannie Mae will allow certain exceptions to standard Selling Guide eligibility policies as described below. Interested Party Contributions An exception to the maximum interested party contribution (IPC) limit for principal residences is permitted as follows: **Occupancy Type** / **LTV/CLTV Ratio** / **Maximum IPC** Principal Residence / Greater than 90% / 6% (vs. standard FNMA 3%) Note: DU is not able to determine if the subject property is a sale of a HomePath property. DU will issue a message if the amount of the IPC appears to exceed the standard limits described in *B3-4.1-02, Interested Party Contributions (IPCs).* The underwriter must determine whether the subject transaction is a purchase of a HomePath property eligible for the higher IPC limit and document the loan file accordingly. Maximum LTV/CLTV/HCLTV Ratios for Borrowers with Multiple (5 - 10) Financed Properties An exception to the maximum LTV/CLTV/HCLTV ratio limits is permitted as follows: **Transaction Type** / **Number of Units** / **Maximum LTV/CLTV/HCLTV ratio** / **Minimum Credit Score** **Investment Property Only** Purchase / 2 – 4 Units / Fixed Rate Only: 75% (vs. standard FNMA 70%) / 720 All other requirements of *B2-2-03 Multiple Financed Properties for the Same Borrower* continue to apply. Certain Resale Restrictions Loans subject to resale restrictions imposed by Fannie Mae as the seller of its REO property are eligible.

	Special Feature Code (SFC) for HomePath Properties with an Eligible Exception Loans must use SFC 679 for a loan secured by a HomePath property if the multiple financed property and/or the IPC exceptions above apply to the transaction. This code is in addition to any other special feature codes that may apply. SFC 679 is not required for a loan secured by a HomePath property that is subject solely to the resale restriction exception.
Social Security Number Validation	Evidence of a valid Social Security number is required for all Borrowers. Social Security number discrepancies must be conclusively resolved and in addition meet applicable Agency guidelines and standards.
Tax Return Transcripts	For all Loan Programs, LSM requires IRS tax transcripts that correspond to any income or losses used to qualify the Borrower(s), to the extent such transcripts are available from the IRS. The Mortgage Loan File must include: • Transcript Type: The transcript type corresponding to the IRS Form type used to document each borrower's income or losses. • If allowed by the program guide and/or Agency, a W-2 transcrip is acceptable if only a W-2 was required by the program guidelines and submitted in the Mortgage Loan File, while a Form 1040 transcrip is required if Form 1040 is submitted in the Mortgage Loan file, etc... • Any information obtained through a transcrip that is more comprehensive than the tax forms in the Mortgage Loan File (i.e., information on a 1040 transcrip, where only a W-2 was required by the program guidelines and used to underwrite the loan) must be counted for when underwriting the Borrower. • A transcript for each tax year covered by the income documentation used to qualify the Borrower(s). If tax transcripts for the most recent 1040 or W-2 are not availabel (due to recent filing), the Mortgage Loan File must contain a copy of an IRS or vendor document showing that no transcript is availabe at that time. Income documented from the current calendar year will usually differ from the prior year's tax transcipt amount. If required by the Program Guide, then when the variance between these amount exceeds 15%, however, underwriter must fully explain and document the current income as reasonable, credible and valid.
Amended Tax Returns	Amended tax returns must have been filed at least sixty (60) days prior to the earlier of the date of the mortgage loan application or the property purchase contract date, if applicable, unless the changes made are non-material to the amount of income claimed and qualification of the Mortgage Loan. Must provide evidece to suppor any extension filed, including canceled checks or other payment recepts, where applicable.

Income	DU Approve/Eligible
	• 4506T must be processed prior to closing.
	
	Evaluated per DU and Fannie Mae guidelines with the following restrictions:
	• Stand-alone VOE (Verification of Employment) is ineligible. VOE must be accompanied by pay stub or pay stub and W-2. See FNMA B3-3.1-02 for VOE instructions for various fields.
	• At minimum a paystub and W-2 is required
	
	Self-Employed Income (SEL 2015-09 and B3-3.2 and B3-3.3)
	Self-employed borrowers may use business income for qualification if:
	• There is a documented history of receiving distributions, or
	• There is no history of receiving distributions but certain other conditions are met, namely
	    o The borrower has access to the business income and
	    o The business must have adequate liquidity to support the withdrawal of earnings
	
	Verification of Self-Employed Income
	The underwriter may verify a self-employed borrower's employment and income by obtaining copies of signed federal income tax returns (individual and in some cases business returns) that were filed with the IRS for the past two years (with all schedules). For DU loan casefiles where two years of the most recent personal and two years of the most recent business returns are required, business tax returns do not have to be provided unless the business is a corporation, an S corporation, a limited liability company, or a partnership.
	
	When two years of signed individual federal tax returns are provided, the underwriter may waive the requirement for business tax returns if:
	• The borrower is using personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements,
	• The borrower has been self-employed in the same business for at least five years, and
	• The borrower's individual tax returns show an increase in self-employment income of the past two years.
	
	For certain loan casefiles DU will issue a message permitting only one year of personal and business tax returns, provided the underwriter document the income by:
	• Obtaining signed individual and business federal income tax returns for the most recent year,

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

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

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

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

Verification of Income - Schedule K-1 (See B3-3.2.1-08)
For Schedule K-1 borrowers with less than 25% ownership of a partnership, an S corporateion, or an LLC:
- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.
- If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm **all of the following** to include the income in the borrower's cash flow:
  - The borrower has access to the income (e.g., partnership agreement or corporate resolution)
  - The business has adequate liquidity to support the withdrawal of earnings.
- If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow.

Rental Income (See *B3-3.1-08* for how to address rental income on business returns)
FNMA has updated and clarified the calculation of rental income received through a business.
- Rental income received through a partnership or an S corporation may offset the PITIA on an investment property (when the borrower is personally obligated on the mortgage) by obtaining the borrower's business tax returns for the most recent year and evaluating IRS Form 8825 in a manner consistent with the evaluation of rental income reported on Schedule E of a borrower's personal tax returns; and
- In order to include positive net rental income in qualifying such borrowers, the income received through a partnership or an S corporation must be evaluated per existing guidelines for business income received from a partnership or corporation.
- FNMA has created three separate worksheets (as Microsoft Excel spreadsheets) for underwriters to use to calculate rental income. **Form 1038 is available in two versions** – one version supports up to four investment properties, and the other version supports up to ten investment properties. The worksheets are recommended but not required:
  - Rental Income Worksheet – Principal Residence, 2- to 4-unit Property (Form 1037) https://www.fanniemae.com/content/guide_form/1037.xlsx
  - Rental Income Worksheet – Individual Rental Income from Investment Property(s) (**up to 4 properties) (Form 1038)** https://www.fanniemae.com/content/guide_form/1038.xlsx
  - Rental Income Worksheet – Individual Rental Income from Investment Property(s) (**up to 10 properties) (Form 1038A)** https://www.fanniemae.com/content/guide_form/1038a.xlsx
  - Rental Income Worksheet – Business Rental Income from Investment Property(s) (Form 1039) https://www.fanniemae.com/content/guide_form/1039.xlsx

Temporary Leave Income (see *B3-3.1-09 Other Sources of Income* for specific instructions)
Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.
If a lender is made aware (through the employment or income verification process) that a borrower will be on

	temporary leave at the time of closing of the mortgage loan and that borrower's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment per the FNMA Selling Guide. If the borrower **<u>will</u>** return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying. If the borrower **<u>will not</u>** return to work as of the first mortgage payment date, the lender must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves. If the borrower is not currently on temporary leave, the underwriter must not ask if he or she intends to take leave in the future. <u>Tip Income (SEL-2015-07)</u> Tip income may be included in qualifying income if the lender can verify that the borrower has received the income for the last two years. Tip income can be verified using a Request for Verification of Employment (VOE, Form 1005 or Form 1005(s)), or recent paystubs and IRS W-2 forms. In some cases the full amount of the tip income earned by the borrower may not be reported by the employer on the Form 1005, paystub and W-2 form. However the borrower may report additional tip income to the IRS using Form 4137, Social Security and Medicare Tax on Unreported Tip Income, when filing his or her tax returns. Fannie Mae will allow this tip income to be used in qualifying if the lender obtains the most recent two years of federal income tax returns with Form 4137. <u>Unreimbursed Employee Business Expenses (SEL-2015-07)</u> The following changes and clarifications have been made to the *Selling Guide* related to unreimbursed employee business expenses. • For a borrower who is qualified using <u>base pay, bonus, overtime, or commission income less than 25%</u> of the borrower's annual employment income: o Unreimbursed employee business expenses are not required to be analyzed or deducted from the borrower's qualifying income, or added to monthly liabilities. This applies regardless of whether unreimbursed employee business expenses are identified on tax returns (IRS Form 2106) or tax transcripts received from the IRS. o Union dues and other voluntary deductions identified on the borrower's paystub do not need to be deducted from the borrower's income or treated as a liability. o Tax returns are not required to document these sources of income. • For borrowers earning <u>commission income that is 25% or more</u> of annual employment income, unreimbursed employee business expenses must be deducted from gross commission income regardless of the length of time that the borrower has filed that expense with the IRS. o The exception to this is if the expense is an actual automobile lease or loan payment. If borrowers report an automobile allowance as part of their monthly qualifying income, the lender must determine if the automobile expenses reported on IRS Form 2106 should be deducted from income or treated as a liability per the *Selling Guide*. <u>Use of IRS W-2 Transcripts in Lieu of W-2s (SEL-2015-07)</u> Fannie Mae will now permit an IRS "Wage and Income Transcript" (W-2 transcript) in lieu of the actual W-2 forms for borrowers with commission income not exceeding 25% of their total income.
Liabilities	<u>Student Loans – Payment Calculation for Student Loans (B3-6-05)</u> For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the lender must use the **<u>greater of the following</u>** to determine the monthly payment to be used as the borrower's recurring monthly debt obligation: • 1% of the outstanding balance; or • The actual documented payment (documented in the credit report, in documentation obtained from the student loan lender, or in documentation supplied by the borrower). If the payment currently being made cannot be documented or verified, 1% of the outstanding balance must be used. Exception: If the actual documented payment is less than 1% of the outstanding balance **<u>and</u>** it will fully amortize the loan with <u>no payment adjustments</u>, the lender may use the lower, fully-amortizing monthly payment to qualify the borrower.
Limitations on Other Real Estate Owned	The 10 financed property limit is cumulative for all borrowers. These limitations apply to the total number of properties financed, not to the number of mortgages on the property. Multiple Loans to the Same Borrower • Maximum 20% concentration in any one project or subdivision • LSM will allow loans on up to 4 financed properties for one borrower, including the subject property,

	or a total of $2 million in financing for one borrower, whichever is less.
	Primary Residence
	• Borrower may have an unlimited number of financed properties with multiple different lenders.
	Second Homes & Investment Properties
	• Borrower may own or be obligated on up to 10 financed property, including borrower's primary residence
	• Subject Property – Second Home - Per DU (typically 2 months PITIA) if subject property is a second home
	• Subject Property – Investment - Per DU (typically 6 months PITIA) if subject property is investment property
	• Other Financed Properties
	  ○ When Borrower has 1-4 financed properties:
	    ▪ 2 months PITIA on each other financed second home or investment property
	  ○ When Borrower has 5 – 10 financed properties:
	    ▪ 6 months PITIA on each other financed second home or investment property
	New multiple loans must be underwritten simultaneously
	
	NOTE: DU is not able to determine the exact number of financed properties the borrower owns or is obligated on, but does issue a message on second home and investment property transactions when the borrower appears to have other financed properties. The lender must apply the eligibility and underwriting requirements, including reserves, manually to investment property and second home transactions that are underwritten through DU.
	Mortgage insurers reserve eligibility requirements may supersede those listed above.

Loan Amount	Minimum Conforming Loan Amount: $75,000
Mortgage Insurance	**When less than two (2) scores per borrower are used, the MI price may be substantially higher than normal. The pricing is based on the lowest credit score received. Confirm the pricing with an MI representative in the early stage of the loan transaction.** The following supersedes all other guidelines for > 80% LTV with MI availability • All loans must be submitted to DU Approval/Eligible • Reserve requirement by mortgage insurers prevail LoanStream's approved MI companies are as follows. • Essent Guaranty, Inc. • Genworth • MGIC • National MI • Radian Eligible MI certificate are as follows: • Borrower Paid Mortgage Insurance (BPMI) paid monthly and must be ordered as non-refundable, constant renewal, deferred payment (initial premium is paid with the first monthly loan payment) • Borrower Paid Single Premium MI paid by borrower • Lender Paid Single Premium MI ○ Premiums for all lender-paid MI plans must be shown on the HUD as being paid to the MI company by Lender Include calculation and rate factor used to determine MI premium disclosed to the borrower on the initial loan application. Including the MI rate card with the factor identified to ensure the appropriate MI partner is chosen. **<u>Special LTV calculations for New York properties (B7-1-01)</u>** Mortgage loans with application dates <u>on or after November 1, 2015</u>, must comply with FNMA requirements in calculating "value" for required mortgage insurance and MI coverage on properties in New York. • The appraised value is used to calculate the LTV ratio to determine **<u>whether mortgage insurance is required</u>** for non-co-op properties, and • The lesser of the appraised value or sales price is used to calculate the LTV ratio to determine the **<u>level of mortgage insurance coverage</u>** that is required. Ineligible MI • Financed MI • Borrower Paid Single Premium paid by other than borrower • Split Premium – upfront portion paid by borrower or seller of the property • Prepaid Mortgage Insurance • Lender Paid Monthly • Lender Paid Annual • Borrower Paid Annual

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

Lender paid pool coverage (referred to as GSE pool insurance)
Investor – paid pool coverage
Loans covered by recourse and/or indemnification agreements
Secondary market coverage agreements

Coverage requirements for fixed rate > 20 years, all ARMs, and all Manufactured Homes
<table>
<tr><th>Coverage</th><th>LTV</th></tr>
<tr><td>12%</td><td>80.01% - 85%</td></tr>
<tr><td>25%</td><td>85.01% - 90%</td></tr>
<tr><td>30%</td><td>90.01% - 95%</td></tr>
<tr><td>35%</td><td>95.01% - 97%</td></tr>
</table>
Coverage requirements for fixed rate ≤ to 20 years
<table>
<tr><th>Coverage</th><th>LTV</th></tr>
<tr><td>6%</td><td>80.01% - 85%</td></tr>
<tr><td>12%</td><td>85.01% - 90%</td></tr>
<tr><td>25%</td><td>90.01% - 95%</td></tr>
<tr><td>35%</td><td>95.01% - 97%</td></tr>
</table>
Reduced MI coverage amounts provided by agency and AUS decisions are ineligible.

NOTE: Certain states have a tax surcharge assessed for Mortgage Insurance. The states requiring the inclusion of a surcharge are as follows.
Florida
Ensure the MI premium also includes the additional surcharge. Some MI companies include the additional charge in the MI premium and others do not. Ensure you have identified which is the premium amount and which is the tax amount and for the MI monthly premium to be escrowed, ensure the total of the two is used for the monthly payment.
</td></tr>
<tr><td>Occupancy</td><td>
Primary Residence

Includes parents or legal guardian wanting to provide housing for their physically handicapped or developmentally disabled adult child
If the child is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the parent or legal guardian is considered the owner/occupant.
Includes children wanting to provide housing for parents
If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the child is considered the owner/occupant.
See Underwriting for additional information

Second Homes
Investment Properties
</td></tr>
<tr><td>Prepayment Penalty</td><td>None</td></tr>
<tr><td>Property Types</td><td>
Eligible property types

1-4 units
Modular Pre-Cut/Panelized Housing
PUDs
PUDs (attached and detached) do not need to be reviewed against FNMA ineligible project characteristics list (SEL 2015-09 and FNMA B4-2.1-02)
<u>Leasehold Estates (See FNMA B2-3-03 and B4-1.4-05) for complete requirements, including:</u>

The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower or a homeowners' association.
The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.

Attached Condos – Fannie Mae approved projects (1028/PERS Approval) (https://www.efanniemae.com/sf/refmaterials/approvedprojects/index.jsp) or Limited Review
See FNMA Selling Guide B4-2.2-01, Limited Review Process
See Limited Review tables below.
Detached Condos – Fannie Mae approved projects or Limited Review only. See FNMA Selling Guide B4-2.2-01, Limited Review Process, and B4-2.1-01, General Information on Project Standards.
There are no <u>LTV ratio</u> or <u>occupancy</u> restrictions for Limited Review eligibility for detached condo units (in new or established projects, including detached unit in a condo project that includes a mixture of attached and detached units)
<u>Full Review conducted with the use of Condo Project Manager (CPM)</u> – In addition to the

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above condo approval methods, LSM allows Fannie Mae's Condo Project Manager (CPM) full review approvals. See your Account Executive for details.

- Manufactured Homes – See LoanStream's Fannie Mae Fixed Rate Manufactured Home matrix for specifics

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

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

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

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

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

Ineligible

- Vacant land or land development properties
- Properties that are not readily accessible by roads that meet local standards
- Properties that are not suitable for year-round occupancy regardless of location
- Agricultural properties, such as farms, ranches or orchards
- On-frame modular construction
- Condo hotels or co-op hotels
- Co-op share loans
- Boarding houses or bed and breakfast properties
- Properties encumbered with private transfer fee covenants (per Regulation 12 C.F.R. Part 1228)
- Properties with greater than 25 acres
- Uniquely designed properties such as dome homes, log cabins, earth berms, and underground homes

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Qualifying Rate and Ratios

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Qualifying Rate

- Fixed Rate - Qualify at note rate. See *Eligibility Matrix Loan Amount & LTV Limitations* for minimum credit score

Ratios

- DU Approve Eligible loans – Ratios evaluated by DU with a limit of 55%

Ineligible

- Manual Underwrite

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<tr><td>

Secondary Financing

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Secondary financing is eligible and requirements are as follows.

Refi includes 1st lien payoff	Underwrite transaction as	Comments
Payoff of purchase money 2nd no cash out	Limited cash-out refi	N/A
Payoff of non-purchase money 2nd, regardless of cash out being taken	Cash-out refinance	N/A.
Payoff of 1st lien seasoned a minimum of 6 months, with subordinate financing being resubordinated and left in place, regardless if the subordinate financing was used to purchase the property and the cash out does not exceed the limited cash-out refi transaction	Limited cash-out refinance	• Subordinate financing must be factored into risk assessment based on CLTV, HCLTV, and DTI ratio. • Subordinate lien must be resubordinated.
Refinance of a cash-out a transaction within the last 6 months	Cash-out-transaction	N/A

NOTE: Subordinate financing left in place will not affect the type of refinance transaction used.

<u>Community Seconds are allowed with LSM approval (subject to additional restrictions)</u>
DU will continue to allow CLTV ratios of 105% when the subordinate financing is a Community Seconds mortgage.

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<tr><td></td><td>Community Seconds are only allowed for Principal Residences. For 2-4 unit primary residence the borrower must make a 5% minimum contribution form borrower's own funds. After the minimum borrower contribution has been met, a community second can be used to supplement the down payment and closing costs. (See B5-5.1-02)

See <u>FNMA B2-1.1-04 Subordinate Financing</u> for acceptable and unacceptable subordinate financing types.</td></tr>
<tr><td>Special Feature Codes</td><td>Refer to the DU Findings to identify the applicable Special Feature code number.</td></tr>
<tr><td>Temporary Buydown</td><td>Ineligible</td></tr>
<tr><td>Underwriting</td><td>DU Approve/Eligible
4506T must be processed prior to closing. See below for 4506T requirement for multiple financed properties.
5-10 Properties with DU Approve/Eligible and the following.
<table>
<tr><th>Type of Property Ownership</th><th>Property Subject to Limitations?</th></tr>
<tr><td>Joint ownership of residential real estate. (This is considered to be the same as total ownership of an individual property.)
NOTE: Other properties owned or financed jointly by the borrower and co-borrower are only counted once.</td><td>Yes</td></tr>
<tr><td>Ownership of commercial real estate</td><td>No</td></tr>
<tr><td>Ownership of a multifamily property consisting of more than four dwelling units.</td><td>No</td></tr>
<tr><td>Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if the borrower is the owner of the corporation and the financing is the in the name of the corporation or S-corporation.</td><td>No</td></tr>
<tr><td>Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if the borrower is the owner of the corporation; however, the financing is in the name of the borrower.</td><td>Yes</td></tr>
<tr><td>Ownership in a timeshare.</td><td>No</td></tr>
<tr><td>Obligation on a mortgage debt for a residential property (regardless of whether or not the borrower is an owner of the property).</td><td>Yes</td></tr>
<tr><td>Ownership of a vacant (residential) lot.</td><td>No</td></tr>
<tr><td>Ownership of a property that is held in the name of a limited liability company (LLC) or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of 25% or more, regardless of the entity (or borrower) that is the obligor on the mortgage.</td><td>Yes</td></tr>
<tr><td>Ownership of a property that is held in the name of a limited liability company (LLC) or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25% and the financing is in the name of the LLC.</td><td>No</td></tr>
<tr><td>Ownership of a property that is held in the name of a limited liability company (LLC) or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25% and the financing is in the name of the borrower.</td><td>Yes</td></tr>
<tr><td>Ownership of a manufactured home and the land on which it is situated that is titled as real property.</td><td>Yes</td></tr>
<tr><td>Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).</td><td>No</td></tr>
</table>

IRS Form 4506T must be signed and executed (transcripts from IRS) prior to closing for both <u>personal</u> and <u>business</u> returns when borrower has 5-10 financed properties and the subject is second home or investment property (B3-3.1-06).

<u>Payoff or Paydown of Debt for Qualification (B3-6-07 and SEL-2015-06)</u>
Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally
Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in</td></tr>
</table>

the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

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

Adult children purchasing a primary residence for elderly parents

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

Parents purchasing a primary residence for a disabled son or daughter

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

Property Flipping

When the Seller of the property has been on title less than 90 days extra diligence must be taken with the transaction. Underwriter in its sole discretion reserves the right to condition for additional information and collateral support to include desk review, field review, or additional appraisal in order to support value. There is not a specific FNMA requirement.

Other underwriting flexibilities:

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

Inspection Documents

Underwriter may request a copy of any inspection where repairs or remediation (monetary or other) are specified in a purchase contract, regardless of whether repairs have been completed.

Ineligible

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