

# Conforming Fixed and ARM Product Guidelines

**PRODUCT CODES:** C10, C15, C20, C30, C31L, C51L, C71L, CJ15, CJ30, CJ51L,

## Overview

A conforming product for loan amounts of \$50,000 to the conforming limit. All loans must conform to Fannie Mae Agency guidelines. DU Approve/Eligible findings are required for all transactions. If an issue is not addressed in these guidelines, refer to Reunion *General Underwriting Guidelines*. In the event the *General Underwriting Guidelines* require different parameters than those stated within these guidelines, the more conservative guideline will apply.

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**Product Codes**

Product Code	Product Description	Eligible AUS System
C10	10-year Fixed Rate	Desktop Underwriter (DU)
C15	15-year Fixed Rate	Desktop Underwriter (DU)
C20	20-year Fixed Rate	Desktop Underwriter (DU)
C30	30-year Fixed Rate	Desktop Underwriter (DU)
C31L	3/1 LIBOR ARM	Desktop Underwriter (DU)
C51L	5/1 LIBOR ARM	Desktop Underwriter (DU)
C71L	7/1 LIBOR ARM	Desktop Underwriter (DU)
CJ15	15-year Fixed Rate High Balance	Desktop Underwriter (DU)
CJ30	30-year Fixed Rate High Balance	Desktop Underwriter (DU)
CJ51L	5/1 LIBOR ARM High Balance	Desktop Underwriter (DU)

**Disclosure/Product Information**
**Fixed Rate Loans**

Type	Assumable	Prepay	I/O Period
Fully Amortized	No	No	n/a

- C10: 10 Year Fixed Rate
- C15: 15 Year Fixed Rate
- C20: 20 Year Fixed Rate
- C30: 30 Year Fixed Rate
- CJ15: High-Balance 15 Year Fixed Rate
- CJ30: High-Balance 30 Year Fixed Rate

**ARM Loans**

Program	Caps	Floor	Margin	Assumable	Convertible	Prepay
C31L	2/2/6	Margin	2.25	Anytime	No	No
C51L	5/2/5	Margin	2.25	Anytime after fixed period	No	No
C71L	5/2/5	Margin	2.25	Anytime after fixed period	No	No
CJ51L	5/2/5	Margin	2.25	Anytime after fixed period	No	No

- C31L: 30-year ARM, fixed for the first 3 years, then adjusts every 1year based on LIBOR
- C51L: 30-year ARM, fixed for the first 5 years, then adjusts every 1year based on LIBOR
- C71L: 30-year ARM, fixed for the first 7 years, then adjusts every 1year based on LIBOR
- CJ51L: High-Balance 30-year ARM, fixed for the first 5 years, then adjusts every 1year based on LIBOR

**Fixed and ARM**

Owner-Occupied Primary Residence					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur	1	97 <sup>1,2</sup>	n/a	n/a	700
R/T	1	97 <sup>1</sup>	n/a	n/a	720
Pur, R/T	1	95 <sup>1</sup>	95	95	660
Pur, R/T	1	80	95	95	620
Pur, R/T	2	80	80	80	620
Pur, R/T	3-4	75	75	75	620
C/O <sup>3</sup>	1	85 <sup>1</sup>	n/a	n/a	700
C/O <sup>3</sup>	1	80	85	85	620
C/O <sup>3</sup>	2-4	75	75	75	620
Second Home					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur, R/T	1	90 <sup>1</sup>	90	90	720
Pur, R/T	1	80	90	90	620
C/O	1	75	75	75	620
Investment Property					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur	1	80	85	85	620
R/T	1	75	75	75	620
Pur, R/T	2-4	75	75	75	620
C/O	1	75	75	75	620
C/O	2-4	70	70	70	620

<sup>1</sup> Refer to [Mortgage Insurance Partners](#) page to view company specific Underwriting Guidelines for Mortgage Insurance eligibility and documentation requirements. Additional restrictions will apply.

<sup>2</sup> Not eligible for 3/1 ARM

<sup>3</sup> Texas Section 50(a)(6) transactions are limited to 80% LTV/CLTV, fixed rate, one unit property only

**Fixed and ARM Requirements:**

- Eligible Program Codes: **C10, C15, C20, C30, C31L, C51L, C71L**
- All borrowers must meet minimum FICO score requirement indicated above
- Maximum loan amounts:
  - 1-Unit      \$417,000
  - 2-Unit      \$533,850
  - 3-Unit      \$645,300
  - 4-Unit      \$801,950

### High Balance Fixed (CJ15 and CJ30)

Owner-Occupied Primary Residence					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur, R/T	1	90 <sup>1</sup>	90	90	700
Pur, R/T	1	75	75	75	660
Pur, R/T	2-4	75	75	75	740
C/O	1	60	60	60	740
Second Home					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur, R/T	1	65	65	65	740
Investment Property					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur, R/T	1-4	65	65	65	740

<sup>1</sup> Refer to Mortgage Insurance Partners page to view company specific Underwriting Guidelines for Mortgage Insurance eligibility and documentation requirements. Additional restrictions will apply.

### High Balance ARM (CJ51L)

Owner-Occupied Primary Residence					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur, R/T	1	75	75	75	680
Pur, R/T	2-4	75	75	75	740
C/O	1	60	60	60	740
Second Home					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur, R/T	1	65	65	65	740
Investment Property					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Pur, R/T	1-4	65	65	65	740

#### High Balance Requirements:

- Eligible Program Code: **CJ15, CJ30, CJ51L**
- Maximum loan amounts\*:
  - 1-Unit      \$625,500
  - 2-Unit      \$800,775
  - 3-Unit      \$967,950
  - 4-Unit      \$1,000,000
- \* These 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 principal balance of a Mortgage must not exceed the maximum loan limit for the specific area in which the Mortgaged 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/webfiles/21269/FullCountyLoanLimitList\\_HERA-BASED\\_FINAL\\_Z.xls](http://www.fhfa.gov/webfiles/21269/FullCountyLoanLimitList_HERA-BASED_FINAL_Z.xls)
- All borrowers must meet minimum FICO score requirement indicated above
- Appraisal/Property
  - Follow DU recommendation
  - Field review (2000) is required if:
    - The appraised value is  $\geq$  \$1,000,000 and the LTV/CLTV is greater than or equal to 75%.
- Borrower Investment
  - Primary residence and second homes require 5% from borrower's own funds regardless of LTV.

- Investment property loans require entire down payment from borrower's own funds.
- Contributions by an Interested Party
  - O/O & S/H 3% regardless of LTV
  - Investment 2%
- Refinances
  - Owner occupied properties located in Texas: Payoff of any first or second Texas Section 50(a)(6) loan is not allowed
  - HUD-1 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.
  - Cash Out Refinance Transaction
    - Primary Residence Only
    - Six months minimum seasoning (six months of payments made) since most recent refinance or date of purchase is required
    - One borrower must have held title (ownership) to the subject property for a minimum of six months. Six months is measured from previous note date to new application date.
- Ineligible
  - Cash-out on the following
    - Owner Occupied: 2-4 unit
    - Second Home
    - Investment Property
  - Texas Section 50(a)(6)

## Assets

- Acceptable asset documentation includes:
  - Direct written verification completed by the depository and one month complete account statement
  - Two consecutive months account statements from the depository (or one month if indicated by agency AUS findings).
  - Statements downloaded from the Internet. These may be utilized only if they provide the name of the institution, the account number, borrower's name, date, and current balance.
- **Bank Accounts**
  - Two consecutive monthly bank statements (or one month if indicated by agency AUS findings) or Verification of Deposit and one month bank statement is the minimum documentation required to document the Borrower's assets. Bank accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts.
  - These funds may be used for the down payment, closing costs, and reserves.
    - Individual Accounts - Funds in the Borrower's individual bank account are acceptable.
    - Joint Accounts - Obtain a letter from the non-borrowing co-depositor(s) stating the relationship with the borrower and that the borrower has full access and use of all the funds for this transaction and for reserves. NOTE: A letter is not required when the co-depositor is the non-borrowing spouse.
    - Trust Accounts - Funds disbursed from a trust account where the Borrower is the beneficiary are acceptable if the Borrower has immediate access to them. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the Borrower has access to the funds. When using trust income for qualifying, effect of the withdrawal must be documented.
    - Accounts which do not allow the Borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the Borrower is not the beneficiary such as custodial accounts or "In Trust For" accounts.
- **Verification of Deposit**
  - At least one month's bank statement is required to cross-validate the information if a verification of deposit is used. Bank statements must be dated within 45 days of application. Quarterly bank statements dated greater than 45 days and less than 90 days are acceptable with verification that the funds are still available.
- **Bridge Loan**
  - A bridge or swing loan is a form of second mortgage secured by the Borrower's present home, which is for sale. By using funds from this loan, the Borrower can close on a new home before selling the present home.
  - Bridge loans are an acceptable source of cash to close, as long as the bridge loan is considered in the DTI and the equity position of the existing home – refer to Occupancy Section for additional restrictions.
- **Proceeds from a 1031 Tax Deferred Exchange**
  - Section 1031 of the Internal Revenue Code permits Borrowers to defer payment of capital gains taxes by exchanging a like-kind property rather than selling property. A 1031 exchange is not allowed on primary residences. It is an acceptable source of funds subject to the following:
    - The 1031 Exchange cannot be an exchange of a partnership or limited liability corporation interest.
    - The name of the taxpayer on the sale of relinquished property must be the same as the acquirer of the Mortgaged Premises.
    - Relinquished property sale must close before or simultaneously with the property acquired.
    - An executed/signed HUD-1 Settlement Statement for the relinquished property is required.

- Verification of funds from the Exchange holder is required.
- **Sale of Other Assets**
  - If funds are derived from the sale of assets other than real estate, they must be verified by the following documentation:
    - Proof of ownership
    - Support for the value of the asset (appraisal)
    - Evidence of the transfer of ownership (e.g., a copy of the bill of sale)
    - Evidence of receipt of the purchase proceeds (e.g., deposit slip or bank statement)
    - Evidence that a party to the property sale or the mortgage financing transaction did not purchase the asset
- **Gifts**
  - Gift funds are acceptable after the borrower has made the minimum down payment of 5% from their own resources. When the LTV/CLTV is 80% or less, the minimum borrower investment can be waived except on High Balance and Super Conforming loans.
  - If the transaction is a Primary Residence, DU Approve/Eligible with LTV above 95%, minimum borrower down payment of 3% is allowed.
  - Gift funds may not be used for meeting reserve requirements
  - Gifts are not allowed on investment properties
  - A gift must be from the borrower's spouse, parent, child or dependent or any other individual related to the borrower by blood, marriage, adoption or legal guardianship or from a domestic partner, fiancé or fiancée.
  - Verification and documentation that sufficient funds to cover the gift are in the donor's account or have been transferred to Borrower's account is required.
  - A gift letter providing the following must be included in the Loan file:
    - The amount of the gift
    - The donor's name, address, and telephone number
    - Donor's relationship to the Borrower
    - Donor statement that repayment is not required
    - The subject property address
    - Donor's signature
  - When the funds are not transferred prior to settlement the donor's ability to provide the gift funds must be documented using one of the following:
    - Certified check (stamped & validated by bank – front and back) given to the closing agent
    - Cashier's check or money order
    - Other official check for the amount of the gift
  - Acceptable evidence of transfer of gift funds includes one of the following:
    - Copy of the gift check or withdrawal slip and the Borrower's deposit slip
    - A copy of the donor's check to the closing agent
    - HUD-1 Settlement Statement for Gift of Equity only
  - Pooled Funds: Regardless of the LTV, a gift from an individual with whom the Borrower has an Established Relationship can be pooled with the Borrower's funds to satisfy the minimum required down payment, if the person providing the gift has lived with the Borrower for the last 12 months and will continue to do so as evidenced by a letter of intent. The donor should provide appropriate documentation to demonstrate a history of shared residency - such as a copy of a driver's license, bill, bank statement, etc. that shows the donor's address as being the same as the Borrower's address.
- **Gift of Equity**
  - A gift of equity is acceptable for primary residence and second home transactions. Borrowers may receive a gift of equity from the seller of the Mortgaged Premises, provided the seller is someone with whom the Borrower has an Established Relationship. The gift will be reflected as a credit on the HUD-1 Settlement Statement and must be clearly labeled as a gift of equity. A gift of equity is not considered a seller contribution.
  - The donor must have sufficient equity in the property to cover the gift and a gift letter must be signed. The HUD-1 Settlement Statement will satisfy donor's ability and receipt of gift verification.

- **Income Tax Refund**
  - If an income tax refund that has not yet been received will be used as funds for down payment or closing costs, the Borrower must provide a copy of the actual signed tax return to verify the anticipated refund.
  - Verification of receipt of the refund is required and must be documented by a copy of the refund check.
- **Life Insurance – Cash Value**
  - When the Borrower uses the net value from a loan against the cash value of a life insurance policy or from the surrender value as funds for down payment and/or settlement costs, the value must be verified by a written statement from the life insurance company. The statement must specify the amount of net cash value currently available to the Borrower. Verification of receipt of the funds is required. Payments on the secured loan do not have to be included in the monthly debt-to-income obligation ratio.
- **Lot Equity**
  - The Borrower may use lot equity for down payment. Lot equity is determined by using the current appraised value of the lot owned by the Borrower on which the subject improvement was constructed, less any lien. However, if the lot was purchased less than 12 months prior to the Loan's application date, the other equity must be based on the lesser of the Purchase Price or current appraised value of the lot.
- **Notes Receivable/Repayment of Loans**
  - When funds are obtained from repayment of a previous loan made by the Borrower, the following information must be provided:
    - Written agreement between the Borrower and the recipient of the loan
    - Verification the Borrower had the ability to lend the funds. Provide evidence that the funds were withdrawn from the Borrower's account
    - Verification that repayment has been made. Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the Borrower's account
- **Rent Credit/Lease with Option to Purchase**
  - Borrower must have a minimum of 5% investment of his/her own funds in the transaction. The transaction must be a purchase of a primary residence. Any portion of the rental payment over and above fair market rent can be included in the minimum 5% down payment provided the minimum term of the original lease was at least 12 months. The credit package must contain the following information:
    - A copy of the rental/purchase agreement and 12-months canceled rent checks or bank statements to document rental payments.
    - The fair market rent must be verified by the appraiser.
  - If the above requirements are not met, the rental payments over and above fair market rent may not be included toward the down payment.
- **Retirement Accounts**
  - Funds from individual retirement accounts (such as 401K, IRA, Keogh accounts, etc.) may be used as the source of funds for the down payment, closing costs, or cash reserves.
  - When funds from these sources are used for down payment or closing costs, the funds must be withdrawn and proof of withdrawal must be provided. Subtract 40% from the vested amount to account for any applicable withdrawal penalties or income tax so that only the "net" withdrawal is applied.
  - When funds from these sources are used to support the cash reserve requirements, it is not required that the funds actually be withdrawn from the accounts, but only 60% of the vested value may be used as reserves and the terms of withdraw must be documented.
  - When retirement accounts only allow for withdrawal in connection with the Borrower's employment termination, retirement, or death, the vested funds should not be considered as reserves.
  - The most recent retirement account statement identifying the Borrower's vested amount and the terms and conditions for fund withdrawals or Loans is required.

- **Stocks/Bonds/Mutual Funds**
  - The value of stocks, bonds or mutual funds must be documented by a current statement, a photocopy of the stock certificate accompanied by a current newspaper or internet stock list or VOD.
  - Verification of liquidation is required when the funds from the sale of stocks/bonds are to be used for down payment, closing costs or other costs.
  - 70% of the value may be used for reserves
  - Government bonds should be valued at its Purchase Price unless redemption value can be determined and verified.
  - The value of stock options must be verified by referencing 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. The calculated value must be discounted by at least 50% to account for estimated taxes and market uncertainty. Stock options can not be used for reserves.
- **Stock – Privately Held Corporation**
  - When the stock of a privately held (not publicly traded) corporation will be used as funds for down payment and closing costs, the price per share must be validated by a CPA for the corporation. A copy of the Buy/Sell Agreement is also required. Verification of receipt of the funds from the sale of the stock is required.
  - In the situation where the privately held corporation is a source of the Borrower's income, the above documentation will be required together with verification from the accountant that sale of the stock will not have an adverse affect on the business or reduce the Borrower's current income level.
  - Stock in a privately held corporation can not be used for reserves
- **Trade Equity**
  - The property seller may take a property owned by the Borrower as part of the down payment on the property being sold to the Borrower, as long as the Borrower has made a 5% cash down payment. The Borrower's equity contribution must be a true value consideration supported by a current appraisal.
  - The following documentation must be provided:
    - A copy of the appraisal on the property being traded
    - A copy of the trade-in contract
    - Title search proving that the Borrower owns the real estate and verifying any liens associated with the property
  - To calculate Borrower's equity, use the following formula:  
**(lesser of current appraised value or trade-in price) minus (outstanding liens plus transfer fees) = Borrower's equity**
  - The property seller must provide proof of title transfer in addition to verification that either all liens have been satisfied or the Borrower is released of liability by an approved assumption. The transfer deed must be recorded.
  - The above rules apply to all trade-in transactions, including those evidenced with two separate contracts in which buyer and seller reverse roles.
  - When the property being traded is a Manufactured Home, the equity contribution is determined by:  
**(lesser of trade-in value) or (appraised value for the land being traded +90% of the retail value of the Manufactured Home\*) minus (outstanding liens plus transfer fees) = Borrower's equity**  
\*The retail value is based on the National Automobile Dealers Association Manufactured Housing Appraisal Guide.
- **Reserves**
  - Additional reserves may be required by DU
  - Subject Property
    - Owner Occupied
      - 1-4 units: Reserves determined by DU
    - Second home: Two months reserves
    - Investment property: Six months reserves

- Other financed properties when subject is an Investment or Second Home:
  - 2 months on each other financed property.
  - The amount of required reserves must be subtracted from the borrower's liquid assets prior to submitting the loan casefile through Desktop Underwriter
- Refer to Retaining Current Residence under the Occupancy section for additional reserve requirements
- When required, reserves must come from the Borrower's own funds and must be documented and verified. Proceeds from a Home Equity Loan, a credit line, the sale of an asset other than real estate, a bridge Loan, or cash out on the Mortgaged Premises, or any other property are not eligible to be used for reserves. Liquid reserves are cash or assets that are easily converted to cash, without restriction and are readily accessible.
- The reserves calculation for a financed property is based on the monthly housing expense of the financed property. All reserve requirements are based on the new Fannie Mae definition of reserves for Principal, Interest, Taxes, Insurance, and All components of the monthly housing expense (PITIA) as defined below:
  - Principal and interest
  - Hazard, flood, and mortgage insurance premiums (as applicable)
  - Real estate taxes
  - Ground Rent
  - Special assessments
  - Any owners' association dues (excluding utility charges that apply to the individual unit)
  - Any monthly cooperative corporation fee (less the pro rata share of the master utility charge for servicing individual unit)
  - Any subordinate financing payments on mortgages secured by the subject property.
- See General Underwriting Guidelines for complete guidelines on Assets

## **AUS Underwriting Decisions**

- All loans require Approve/Eligible from Desktop Underwriter
  - DU Refi Plus message is not allowed in findings
    - Enter "Standard LCOR" in DU to eliminate DU Refi Plus message (or change loan to DU Refi Plus program)
- All conditions outlined in the findings report must be satisfied
- Employment and income may be documented per agency AUS findings except as follows:
  - Salary: Recent paystub reflecting YTD earnings and last year W-2 form(s)
  - Self-employed/Commission: 1 year personal tax returns
- Assets may be documented per agency AUS findings except as follows:
  - VOD alone is not an acceptable source of asset verification. If a VOD is used, most recent one month bank statement to cross validate information is required. See Asset section for details.
- Regardless of agency AUS asset requirements, the following reserves are required:
  - Subject Property
    - Owner Occupied: Reserves determined by agency AUS
    - Second home: Two months reserves
    - Investment property: Six months reserves
  - Investment Property and Second Home: Other financed properties:
    - 2 months on each other financed property.
    - The amount of required reserves must be subtracted from the borrower's liquid assets prior to submitting the loan to agency AUS.
- See General Underwriting Guidelines for complete guidelines on AUS Underwriting Decisions

## Borrowers

- Eligible Borrowers
  - US Citizens
  - Permanent Resident Aliens
  - Non Permanent Resident Aliens
- See General Underwriting Guidelines for complete guidelines on Borrowers

## Contributions by an Interested Party

- Must be used for closing cost, prepaids, and other financing costs, provided the maximum contribution does not exceed the limits below.
- Standard Conforming limits:
  - **Primary Residence and Second Homes**
    - CLTV > 90%, maximum contribution is three percent (3%)
    - CLTV >75% - 90%, maximum contribution is six percent (6%)
    - CLTV ≤ 75%, maximum contribution is nine percent (9%)
  - **Investment Property**
    - Maximum contribution is 2% regardless of CLTV
- High Balance and Super Conforming Loans are limited to the following
  - **Primary Residence and Second Homes**
    - Maximum contribution is 3% regardless of CLTV
  - **Investment Property**
    - Maximum contribution is 2% regardless of CLTV

## Credit/Liabilities

- All 3 credit scores for each borrower are required. Although all three repository scores are required, there may be instances when all three scores are not available. In those cases, the credit report must indicate that all three repositories were accessed and that the scores were not available. In that case at least 2 scores for each borrower must be reflected.
- A valid/usable credit score is one that is generated based on a minimum of 4 trade lines one of which has been open a minimum of 24 months, the other 3 must be rated for at least 12 months. This requirement may be waived with an Underwriter Exception.
- If there are less than 4 trade lines, or the trade lines do not meet the required payment history requirements (i.e., one has been open a minimum of 24 months, the other 3 must be rated for at least 12 months) or if there is no credit, there is insufficient data to determine credit behavior—even if the report includes a credit score.
- **Authorized User Accounts** - Credit reports containing authorized user accounts require additional evaluation and documentation regardless of any AUS recommendation.
  - If the primary account holder is another borrower on the transaction no further action is required.

If the primary account holder, including a non-borrowing spouse, is not another borrower on the transaction, the documentation requirements in the following grid apply. <b>Credit Characteristics</b>	<b>Required Documentation</b>
If any of the following characteristics apply to the loan, the required documentation listed to the right is required: <ul style="list-style-type: none"> <li>• There is a significant difference in credit utilization between the authorized user accounts and primary credit lines,</li> <li>• There is a significant difference when comparing the late payments of the authorized user accounts to the primary credit lines.</li> </ul>	<ul style="list-style-type: none"> <li>• A letter of explanation from the borrower that identifies the relationship of the primary account holder to be that of a relative (the borrower's spouse, parent, or an individual related to the borrower by blood, marriage, adoption, or legal guardianship), <b>AND</b></li> <li>• Evidence of three months of recently cancelled checks or account statements</li> </ul>

<ul style="list-style-type: none"> <li>The credit limits on authorized user accounts are significantly higher when compared to the primary credit lines.</li> </ul>	<p>to document that the borrower(s) has been making payments on the account(s).</p>
<p>If any of the following characteristics apply to the loan, the required documentation listed to the right is required:</p> <ul style="list-style-type: none"> <li>The primary credit lines show both high utilization and excessive past late payments when compared to the authorized user accounts</li> <li>The primary credit lines show both high utilization and significantly lower credit limits when compared to the authorized user accounts</li> <li>The primary credit lines show both significantly lower credit limits and excessive past late payments when compared to the authorized user account</li> <li>The primary credit lines show high utilization, excessive late payments, and have significantly lower credit limits when compared to the authorized user accounts.</li> </ul>	<ul style="list-style-type: none"> <li>A letter of explanation from the borrower that identifies the relationship of the primary account holder to be that of a relative (the borrower's spouse, parent, or an individual related to the borrower by blood, marriage, adoption, or legal guardianship), <b>AND</b></li> <li>Evidence of six months of canceled checks along with the account statements to document that the borrower(s) has been making payments on the account(s).</li> </ul>

▪ **Credit Inquiry Policy**

- Borrower must provide a detailed explanation letter that specifically addresses both the purpose and outcome of each credit inquiry within the last 120 days.
- If a new account is established as a result of the inquiry, the terms, balance, and monthly payment must be verified with a copy of the approval letter or recent account statement.

▪ **Child Support / Alimony/Maintenance**

Payments of child support and alimony are counted as recurring debts. Acceptable sources of documentation include a copy of:

- Applicable page(s) and signature page of the divorce decree, or
- Property settlement, or
- Separation agreement

If payments are being paid through the court, a letter from the court verifying the dollar amount is sufficient.

Obligations that will end within the next 10 months do not need to be counted in debt-to-income ratio. However, the size and number of remaining payments should not impact the borrower's ability to handle the new mortgage payment during the early period of the loan. If adjusted gross income is used to qualify the borrower in lieu of a full self-employed income analysis, any alimony payments reflected, as a reduction to income on the tax returns, should be added back to the adjusted gross income figure. Alimony payment must be included as a liability in the total debt ratios.

▪ **Debt Payoff / Consolidation**

- Payoff 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.
- Revolving: If an account will be paid off and closed during the origination process or at loan closing, then the payment does not have to be included in the DTI. Verification the accounts are paid off and closed must be included in the file.
- Lease: The payoff of lease is not permitted. All leases must be included in the DTI
- Installment: Installment loans may be paid off to qualify. Installment debts being paid off do not need to be included in the total debt ratio.
- For purchase or limited cash-out refinance transactions where debt is being paid off to qualify, the borrower's liquid assets must be manually reduced in the AUS by the amount

- being paid off. This manual reduction of the assets is not required for cash-out transactions.
- When debts are being paid off, the payoff must be documented and the source of funds verified. Gift funds cannot be used to payoff debt to qualify.
  - Verification that the debt has been paid must be provided by one of the following:
    - A copy of the HUD-1
    - A supplemental credit report
    - Verification from the creditor
  - Verification that the debts are closed (when required) must be provided by one of the following:
    - Direct verification from the creditor
    - A supplemental credit report
  - Texas 50(a)(6) transactions can not include debt payoff as a requirement for loan approval or for qualification purposes.
- **Delinquent Accounts**
    - Judgments, garnishments and liens must be paid off at or prior to closing. Documentation of the satisfaction must be provided.
    - Accounts that are past due (and not yet reported as a collection account) must be brought current.
    - Verification of sufficient funds to satisfy these obligations must be documented.
    - Collection or charged-off accounts may not have to be paid off at or prior to closing unless required by agency AUS.
      - Primary residences and second homes, collection and charge-off accounts do not have to be paid off if the total balance of such accounts is \$5,000 or less. For investment properties, collection and charge-off accounts do not have to be paid if the balance of an individual account is less than \$250.00 or if the total balance of such accounts is \$1,000 or less.
    - Satisfaction of tax liens is a condition of mortgage Loan approval. When the credit report or title report shows federal, state or local tax liens, a letter of explanation and proof that the lien is paid are required.
  - **Disputed Account Information** - Per DU requirements, the credit report used by DU in its underwriting analysis must be accurate. When erroneous or disputed accounts are identified on the DU Findings Report, the accuracy of the disputed tradeline(s) must be verified to determine if the tradeline(s) belong to the borrower and confirm the accuracy of the payment history. To satisfy these conditions, one of the following options must be used:
    - If the tradeline does not belong to the borrower, or the reported payment history is inaccurate, borrowers must provide written documentation satisfying the DU condition. Under these circumstances, when the information is validated, DU may require no further action.
    - If the tradeline does belong to the borrower and the reported payment history is accurate, the disputed tradeline(s) must be considered in the credit risk assessment. To ensure the disputed tradeline is considered, the Client must obtain a new credit report with the tradeline(s) no longer reported as disputed and resubmit the loan to DU.
  - **Landlord Rating**
    - A 12-month satisfactory landlord reference is required
    - All direct verifications must include the rental amount, payment history, and length of payment history.
    - When the landlord is an interested party to the transaction (i.e., seller, broker, etc.) or a relative or employer of the Borrower, 12-months canceled checks reflecting a satisfactory payment history must be provided. In addition, a copy of the lease to verify the due date in lieu of a landlord reference must be provided.
    - If cancelled checks are used, copies (front & back) of twelve (12) month's consecutive (one (1) payment per month) rental payment canceled checks are required.
  - **Major Derogatory Credit** - The presence of major derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk.

Examples of major derogatory credit include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales, and short sales.

The credit history for the last seven years must be reviewed to determine whether there are any major indications of derogatory credit, such as un-discharged debts, judgments, bankruptcy, etc. Any litigation involving the borrower, including bankruptcy, foreclosure, deed-in-lieu, pre-foreclosure, short sale, judgments, tax liens, collection accounts, and charge-offs must be evaluated separately and meet the specific product guidelines.

Major derogatory information requires a full investigation including:

- An explanation from the borrower. Explanations must make sense and cannot conflict with other verified information or documentation in the file. When a borrower indicates unusual circumstances have contributed to serious delinquencies or derogatory credit, documentation to support those circumstances should be obtained if necessary to justify a decision to approve a loan with recent credit problems.
- Proper consideration must be given in evaluating the borrower's creditworthiness
- Proof that the incident has been resolved and documentation supporting the resolution and conclusion of the matter.
- If a derogatory item is being paid through this transaction, the file should note it in the closing statement.

The underwriter must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the borrower has re-established an acceptable credit history. The underwriter must make the final decision about the acceptability of a borrower's credit history when significant derogatory credit information exists.

If not clearly identified in the credit report, the borrower must provide copies of appropriate documentation for the significant derogatory credit event. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or pre-foreclosure sale; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

The following grid describes the amount of time that must elapse (the "Recovery Time") after a significant derogatory credit event before the borrower is eligible for a new loan. The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the application date of the new loan.

DU cannot read the following and therefore the Recovery Time and LTV/CLTV/HCLTV must be manually applied: <ul style="list-style-type: none"> <li>• Pre-foreclosure/short sale/deed-in-lieu</li> <li>• Prior Restructure Reflected in Credit History. NOTE: An existing restructured loan being refinanced is not eligible.</li> </ul> Recovery time requirements are based on the date of discharge, dismissal or completion to the date of the application.		
	<b>Recovery Time</b>	<b>Maximum LTV/CLTV/HCLTV</b>
<b>Foreclosure</b>	7 years	Max Financing
<b>Pre-foreclosure/ Short Sale/ DIL</b>	7 years 4 years 2 years	Max Financing 90% 80%
<b>Prior Restructure Reflected in Credit History</b>	With mortgage delinquencies: 4 years	Max Financing
<b>Bankruptcy Excluding Ch 13</b>	4 years	Max Financing

<b>Bankruptcy Chapter 13</b>	2 years: discharge 4 years: dismissal	Max Financing
<b>Multiple Bankruptcy Filings</b>	5 years if more than one filing within the past 7 years	Max Financing

- **Pre-Foreclosure / Short Sale /Deed-In-Lieu of Foreclosure** - The terms “short sale” and “pre-foreclosure sale” have the same meaning – the sale of a property in lieu of a foreclosure, resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. A pre-foreclosure sale usually involves a delinquent mortgage. A short sale may involve the payoff of a mortgage with no delinquencies.
  - Final HUD1 may be required for the sale of any property after 1/1/08.
- **Restructured Loan**  
A restructured loan is a mortgage loan in which the terms of the original transaction have been changed resulting in either absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in:
  - Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
  - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
  - Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage; or
  - Conversion of any portion of the original mortgage debt from secured or unsecured debt

In many cases, a borrower may not disclose that their existing mortgage loan has been restructured. The credit report may show a restructured loan as “settled for less than owed”. If the credit report does not specify “settled for less than owed”, you will need to scrutinize the mortgage balance reported on the credit report versus the payoff balance. If the two balances do not match and the difference is more than unpaid interest or prepayment penalties, the loan may have been restructured.

**NOTE:** If the existing loan was restructured, it is not eligible for refinance.
- **Bankruptcy**  
The following documentation is required for applicants with bankruptcies. However, this documentation can be waived if AUS recognizes the Bankruptcy and does not request additional documentation.
  - Copies of the bankruptcy petition, schedule of debts, a schedule of the debts discharged and discharge certificate
  - Evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid
  - Any other evidence necessary to support the conclusion that the applicant has re-established an acceptable credit reputation
- **Requirements for Re-establishing Credit** - After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, or pre-foreclosure or short sale, the borrower’s credit will be considered re-established if all of the following are met:
  - The waiting period and the related requirements are met.
  - The loan receives an Approve/Eligible or Accept recommendation from agency AUS
  - The borrower has traditional satisfactory credit since the incident that includes at least 4 active references
  - All accounts must be current as of the date of the application
  - Minimum of four trade lines with at least one housing-related reference
  - Three of four trade lines must have been active in the last 24 months, including a mortgage or rental reference
  - If rental payments were not reported to the credit repositories, copies of bank statements, money orders, or canceled checks for the most recent 12-month period must be provided, in addition to the rental verification

- No housing payments may have been past due since the date of discharge of bankruptcy or satisfaction of foreclosure
- No more than two installment or revolving payments 30-days past due in past 24 months
- No installment or revolving payments 60 or more days past due since the date of discharge of bankruptcy or satisfaction of foreclosure
- No new public records for bankruptcy, foreclosure, deeds in lieu, pre-foreclosure sales, unpaid judgments, collections, garnishments, liens, etc., since the date of discharge of bankruptcy or satisfaction of foreclosure
- Evidence that the Borrower's credit history does not contain multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit
- **Mortgage Rating** - When a mortgage rating is 45 days old or less as listed on the credit report and the rating covers a 12-month period, no additional documentation is necessary. If these requirements are not satisfied, the mortgage rating must be updated by mortgage statement or verification of the mortgage.
  - A mortgage payment is considered current as long as it is paid within the month along with any late charges assessed for payments made beyond the 15-day grace period. A letter of explanation and supporting documentation is required when payments are made beyond the month due.
  - A mortgage is not eligible if any Borrower's credit report contains a mortgage trade line that is currently 30 or more days past due. Borrowers may not bring past due mortgages current prior to qualify.
  - If a mortgage has a 30, 60, 90, 120 or 150-day late payment within the past 12 months, the loan is not eligible. However, the borrower may have one 30 day mortgage late in the last 12 months as long as the late was reflected on the credit report analyzed by the AUS
  - Payment history on any property (regardless of occupancy) is considered mortgage credit.
  - Payments on a Manufactured Home, timeshare, or second mortgage are considered mortgage debt, even if reported as an installment loan.
  - Additionally, any repossession or payment > 120 days late on a Manufactured Home, timeshare, mortgage, or second mortgage even if shown as an installment loan, will be considered a foreclosure
- See General Underwriting Guidelines for complete guidelines on Credit

## Debt-to-Income Ratio

- **DTI Ratio is evaluated by DU**

## Income

- The maximum age of income documents is 90 days. The age of the document is measured from the date of the document to the date the note is signed.
- The minimum income documentation required is:
  - Salary: Recent paystub reflecting YTD earnings and last year W-2 form(s)
  - Self-employed/Commission: 1 year personal tax returns
- **Pay stubs**
  - The pay stub must clearly identify the following:
    - Borrower as the employee
    - Borrower's gross earnings for the current pay period and year-to-date earnings
  - If the borrower is paid hourly, the number of hours must be noted on the pay stub
  - Pay stubs must be dated no earlier than 30 days prior to the Loan application
  - Pay stubs must be computer generated (not handwritten).
  - Pay stubs that are issued electronically, via e-mail or downloaded from the Internet are acceptable and must include the following:
    - Internet Uniform Resource Locator (URL Internet address) identifying the source of the information
    - Date and time printed

- Verbal verification of employment
- The documentation must also contain information identifying the place of origin and/or the author of the documentation, all of which must be confirmed on the verbal verification
- Document downloaded directly from the Internet to a Word document or Excel spreadsheet is not acceptable
- **Self-employed** - Borrowers must provide recent income information to verify stability of income
  - YTD P&L if more than 90 days has elapsed since year end.
  - Year end signed P&L is required if 1040's have not been filed. (I.e. prior to April 15)
  - Qualifying income is based on verified 4506T – Tax Transcripts
  - Independent verification of the phone number listing and address for the borrower's business using a telephone book, the internet (i.e. 411.com, yellowpages.com, etc), or directory assistance
  - Verification of the existence of the borrower's business from a third party such as a CPA, regulatory agency, or the applicable licensing bureau
  - If the borrower is a sole proprietor and does not use a CPA, and the file contains validation that no business license is required, verification of the business and source of income is still required. Alternative verification includes:
    - Copies of current contracts
    - invoices
    - Business references.
 Reunion will confirm the validity of any documents received.
  - Income from self employed borrowers can only be used to qualify when the borrower has owned the business for at least 2 years.
- **Commission, Overtime and Bonus Income-** The borrower must have a two-year consecutive history of receiving commission, overtime, or bonus income, and the income must be likely to continue for the next three years. While fluctuations in these types of income are expected, income that shows a significant declining trend is not considered stable.
  - If the borrower has changed jobs within the last two years, the loan file must contain documentation showing a history of receipt of commission/overtime income over the prior two years by supplementing current employer documentation with documentation from all prior employers providing commission income in the past two years. If the borrower has yet to receive any commission/overtime income from the new employer, it may still be reasonable for the commission/overtime to still be considered if
    - It is reasonable based on the time period with the new employer that the income has not yet been received
    - Overtime – there is documentation that specifies the amount and terms of the borrower's overtime compensation
    - Commission and Bonus – there is an employment contract or other documentation from the employer that specifies the amount and terms of the borrower's incentive or variable compensation
- **Commission Income**
  - Determining qualifying income with streamlined documentation (if allowed by agency AUS):
    - If only the most recent tax return is required by the AUS to verify commission income, then divide the amount of commission income less any employee (unreimbursed) paid business expenses by 12 regardless of the number of months reflected on the most recent tax return. The tax return(s) must reflect a minimum of six months commission earnings in order to be considered as qualifying income.
    - If only a YTD paystub is required by the AUS to verify commission income, assume the frequency of commission payments is on an annual basis. Divide the amount of YTD commission income on the YTD paystub by 12.  
**Example:** If the paystub is dated June 30 and shows YTD commission payments of \$6,000, then \$500 would be the monthly qualifying income (\$6000 divided by 12). If the YTD paystub does not reflect any commission income receipt, then full

commission income documentation for prior two years must be obtained using qualification method outlined above.

- If the borrower does not qualify under this more conservative method, additional documentation must be obtained to determine the actual frequency of the commission income. The underwriter may then calculate the income divided by the verified/actual frequency of the income. It may be determined that the 24 month calculation below would be more appropriate.
- If the commission income shows a significant increase or decrease over the prior two years, an underwriter must individually assess the commission income history to determine the appropriate calculation method. Refer to “Significant Increase or Decrease in Variable Income” in this section for additional information.
- Determining qualifying income with standard documentation:
  - After deducting any employee paid business expenses reflected on the borrower’s tax returns from gross commission income, use the average income over the past 24 months if the borrower’s prior two years and year-to-date annualized commission income show that commission income has been consistent or moderately increased each year. Frequency of commission payments must be confirmed in order to annualize the commission amount from year-to-date pay stub.
  - After deducting any employee paid business expenses reflected on the borrower’s tax returns from gross commission income, use the average income over the past 12 months if the borrower’s prior two years and year-to-date annualized commission income show that commission income has moderately decreased. Frequency of commission payments must be confirmed in order to annualize the commission amount from year-to-date pay stub.
  - If the commission income shows a significant increase or decrease over the prior two years, an underwriter must individually assess the commission income history to determine the appropriate calculation method. Refer to “Significant Increase or Decrease in Variable Income” in this section.
- **Overtime Income**
  - Overtime income requires a written statement from the employer that the overtime income is likely to continue. If a written statement cannot be obtained from the employer indicating the likelihood of continuance:
    - The file must contain a documented assessment by the underwriter
    - The assessment must indicate that a written statement from the employer could not be obtained and must outline their rationale on why continuance of overtime income is deemed likely to continue for the next three years.
  - Determining qualifying income with streamlined documentation (if allowed by agency AUS):
    - When the AUS certificate only requires that one (rather than two) years of prior overtime income be documented as outlined below, assume the overtime income has been earned as of the date of the paystub. A conservative method that assumes that total year overtime income has been earned as of the date of the paystub must be used when AUS only required that one (rather than two) years of prior year overtime income be documented as outlined below.
    - Divide the amount of YTD overtime income on the YTD paystub by 12.  
**Example:** If the paystub is dated June 30 and shows YTD overtime payments of \$6,000, then \$500 would be the monthly qualifying income (\$6000 divided by 12). If the YTD paystub does not reflect any overtime income receipt, then full overtime income documentation for prior 2 years should be obtained using qualification method outlined above.
    - If the borrower does not qualify under this more conservative method, additional documentation must be obtained to determine the actual frequency of the overtime income. The underwriter may then calculate the income divided by the verified/actual frequency of the income. It may be determined that the 24 month calculation above would be more appropriate.
  - Determining qualifying income with standard documentation:

- Use the average overtime income over the past 24 months if the borrower's prior two years and year-to-date annualized overtime income show that overtime income has been consistent or moderately increased each year.
  - Use the average overtime income over the past 12 months if the borrower's prior two years and year-to-date annualized overtime income show that overtime income has moderately decreased.
  - If the overtime income shows a significant increase or decrease over the prior two years, an underwriter must individually assess the overtime income history to determine the appropriate calculation method. Refer to "Significant Increase or Decrease in Variable Income" in this section. While fluctuations in overtime income are expected, overtime that shows a significant declining trend is not considered stable and therefore may only be used as qualifying income if the loan file contains documentation and supporting rationale by an underwriter that the income has stabilized at the lower level.
- **Bonus Income**
- Bonus income requires a written statement from the employer that the bonus income is likely to continue. If a written statement cannot be obtained from the employer indicating the likelihood of continuance:
    - The file must contain a documented assessment by the underwriter
    - The assessment must indicate that a written statement from the employer could not be obtained and must outline their rationale on why continuance of bonus income is deemed likely to continue for the next three years.
  - Determining qualifying income with streamlined documentation (if allowed by agency AUS):
    - When the AUS certificate only requires that one (rather than two) years of prior bonus income be documented as outlined below, assume the payment frequency is annual.
    - Divide the amount of YTD bonus income on the YTD paystub by 12.
    - Example: If the paystub is dated June 30 and shows YTD overtime payments of \$6,000, then \$500 would be the monthly qualifying income (\$6000 divided by 12). If the YTD paystub does not reflect any overtime income receipt, then full overtime income documentation for prior 2 years should be obtained using qualification method outlined above.
    - If the borrower does not qualify under this more conservative method, additional documentation must be obtained to determine the actual frequency of the bonus income. The underwriter may then calculate the income divided by the verified/actual frequency of the income. It may be determined that the 24 month calculation above would be more appropriate.
  - Determining qualifying income with standard documentation:
    - Use the average income over the past 24 months if the borrowers' prior two years and year-to-date annualized bonus income show that bonus income has been consistent or moderately increased each year. Frequency of bonus payments (yearly, quarterly, etc.) must be confirmed in order to annualize the bonus amount from year-to-date pay stub.
    - Use the average income over the past 12 months if the borrower's prior two years and year-to-date annualized bonus income show that bonus income has moderately decreased. In order to determine the trending, the frequency of bonus payments (yearly, quarterly, etc.) must be confirmed in order to determine bonus amount from year-to-date pay stub.
    - If the bonus income shows a significant increase or decrease over the prior two years, the underwriter must individually assess the bonus income history to determine the appropriate calculation method. Reference the "Significant Increases or Decreases in Variable Income" in this section.
- **Irregular Income/Uncommon Income Structures** - There may be situations where normal calculations will not apply to the income the borrower receives. Some employment fields, such as health care professionals, do not work a 40-hour workweek, but continue to be paid overtime or other fluctuating income. Calculating the income for such employment may

require a Written Verification of Employment (WVOE), in addition to a paystub and W-2s, to provide an explanation of earnings pattern. Credit should not be given for both a 40-hour workweek and overtime, in such cases. It may be that an average of the borrower's total income would give a more accurate picture of the borrower's earnings. The overall strength of the borrower, the stability of income and the likelihood of the continuance of the income must be considered when using variable forms of income.

- **Significant Increase or Decrease in Variable Income** - An underwriter must review any file when variable income is used to qualify with a significant increase or decrease in variable income (bonus, commissions, overtime, etc). The calculation method used should be the most appropriate and not the one that yields the highest amount. Trends in the borrower's industry should also be considered in the evaluation of stability of income.
  - **Significant Decrease in income**
    - The loan file must contain the reason for the significant decline in variable income from the borrower.
    - When the borrower attributes the significant decrease in income to a one-time occurrence (e.g. injury, leave of absence to care for ill family member, etc) that prevented the borrower from working or earning full income for a period of time, the variable income can be averaged using a previous higher level if there is proof that the borrower's income is back to the level they previously earned.
    - When the significant decrease in income is not attributed to a onetime event, an underwriter must focus the analysis on the most recent earnings and the income that is most likely to continue. The loan file must contain the underwriting rationale for the inclusion of such income.
  - **Significant Increase in Income**
    - The loan file must contain the reason for the significant increase from the borrower.
    - When the borrower has experienced a significant increase in income, the higher income may not be used to qualify the borrower unless there is sufficient documentation to determine that the increase is stable and likely to continue at the level used for qualifying (e.g. that the income is not a onetime incentive payment).
    - The loan file must contain the underwriting rationale for the inclusion of such income.  
**Example:** The underwriter must verify the income is not a onetime incentive payment that is contributing to the increase in income. If it is a onetime incentive payment, the increased amount is not considered stable and likely to continue.
- **Disability** - Disability benefit payments (Social Security disability insurance benefits, maternity/parental benefits or Veterans disability compensation benefits, etc.) may be treated as acceptable, stable income, unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. A review date on a Social Security award letter for disability is not considered a defined expiration date. Confirm the borrower's current eligibility for the disability benefits by obtaining a statement from the benefit's payer (insurance company, employer, or other qualified and disinterested party).
  - **Permanent Disability**
    - In cases where the income does not have a defined expiration date, the income may be considered stable, predictable, and likely to continue.
    - The borrower will not be required to provide additional documentation evidencing continuance of the income.
  - **Temporary Disability or Workman's Compensation**
    - Benefits that have a defined expiration date must have a remaining term of at least three years from the date of the mortgage application in order to be used for loan qualification.
    - If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.
    - If a borrower is currently on temporary disability (including maternal/parental leave) the following documentation is required:
      - The borrower must provide a letter of intent to return to work once the disability no longer exists

- Letter/verification from the employer stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return. The rate of pay must be equal to or greater than the disability or the lesser amount will be used in qualifying the borrower.
  - Award letters indicating the payment amount and must show the income level is stable
  - Direct verification from the payer of the disability income indicating the current amount received and any conditions for termination
- NOTE: The temporary disability benefits must not terminate prior to the borrower returning to work
- **Foreign Income Earned by U.S. Citizens**
    - Foreign income earned by a U.S. citizen who is employed by a foreign corporation or foreign government and is paid in foreign currency is allowed, with the following documentation:
      - Most recent two years personal income tax returns that include the foreign income
      - Most recent year-to-date pay stub
      - Most recent two years W-2 statements.
    - All income must be converted into U.S. dollars.
    - Foreign income earned that is not reported on the personal income tax returns is not eligible for qualifying income.
  - **Teacher Income**
    - When a Borrower is employed as a teacher, the annual salary must be verified. If monthly or weekly base pay is provided, the employer must verify the number of pay periods per year. Stipends or supplemental income must be documented as regular and continuous.
    - For teacher income paid over a 10-month period and obtaining financing during the summer months when income is not received, the following documentation is required:
      - Final year-end pay stub from school
      - Written Verification of Employment
      - Verbal Verification of Employment
      - Copy of guaranteed contract. The contract must indicate that Borrower is paid over a 10-month period.
  - **Union Members**
    - Union members may hold several jobs during a year. Verification for a union member requires the following documentation:
    - Verbal Verification of Employment from Union confirming:
      - Borrower is in good standing with union
      - Borrower employed by same employer issuing pay stub and income used for qualification. If union cannot provide confirmation, a Verbal Verification of Employment with present employer is required
    - Current pay stub from present employer. If there have been more than one employer in the current year, the last pay stub from each employer will be required to adequately reflect year-to-date earnings
    - Complete personal income tax returns with all schedules and all W-2 forms for the last two years
    - Due to fluctuations in income, income will be averaged over the past 24 months, unless income has declined and then the most recent 12 months will be averaged.
  - **Other income:**
    - 2 years 1040s may be required depending on income sources
    - Other Income must be documented per Fannie Mae guidelines
    - All non-taxable income sources may be grossed up by a factor of 1.25 and file must contain documentation that the income is non-taxable
    - Principal(s)/Owner(s) of the Originating Lender are eligible for Full Doc transactions only and must provide two years complete 1040's (and business tax returns if applicable)
  - **Rental Income**

- Conversion of Principal Residence to Second Home or Investment Property: Refer to Retaining Current Residence in Occupancy Section
- When lease agreements are used to substantiate rent, the leases must be fully executed for a minimum of 12 months.
- If the tenant is a family member, a copy of the fully executed lease and evidence of receipt of the rental income for 12 months, or period of the lease if less than 12 months, is required. On a brand new lease to a family member, evidence of the receipt of the initial deposit is required. If documentation cannot be provided, no rental income may be considered.
- **Subject Property**
  - Borrowers must currently own a primary residence or own other investment properties in order to use rental income for loan qualification. If not, the Borrower must qualify with the full PITIA payment.
  - The Borrower must have rent loss insurance equal to a minimum of 6 months of the gross monthly rent for the subject property on 1-4 family investment properties. This requirement may only be waived if the customer qualifies for the loan using the full PITIA payment without relying on the rental income.
  - Operating Income Statement (FNMA 216) is required on all 2-4 Owner-Occupied properties and all Investment Properties if rental income is used for qualifying
  - Comparable Rent Survey (FNMA 1007) is required for all 1-unit Investment properties if rental income is used for qualifying
  - Fully executed RentalLease Agreement(s) are required if property is currently rented
  - Rental income calculations:
    - Purchase: qualifies using the amount established by the appraiser in the Operating Income Statement.
    - Properties owned for one or more complete tax years average from the borrowers most recent personal tax returns
    - Properties owned for less than one complete tax year use the lesser of
      - 75% of Appraiser's opinion of market rent Single Family Comparable Rent Schedule or Small Residential Income Property Appraisal Report
      - 75% of actual rent form current lease agreement
      - Monthly average of gross rent from borrower's most recent tax returns divided by the number of months the borrower owned the property during tax year (if applicable)
- Rental income calculations – other property
  - Properties owned for one or more complete tax years average from the borrowers most recent personal tax returns
  - Properties owned for less than one complete tax year use the lesser of
    - 75% of actual rent form current lease agreement
    - Monthly average of gross rent from borrower's most recent tax returns divided by the number of months the borrower owned the property during tax year (if applicable)
- **Unacceptable Sources of Income**
  - Room/boarder rent from subject property
  - Capital Gains
  - Signing bonus or Stock Options from new employer
  - All Unacceptable Sources of Income listed in *General Underwriting Guidelines*
- See *General Underwriting Guidelines* for complete guidelines on Income

## Index - LIBOR

- The index is based on the average rate for 1year U.S. dollar-denominated deposits in London markets based on quotations of major banks, the LIBOR.

## Maximum Exposure / Multiple Loans

- Second home or investment property, the following limitations apply:
  - All borrower(s) may own or be obligated on the Note (and not hold title) to up to a total of four (1-4 units) financed properties (including his or her primary residence)
  - The financed property limit applies to the borrower's ownership of 1-4 unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers. These limitations apply to the total number of properties financed, not to the number of mortgages on the property.
  - The borrower may not be affiliated with the builder, developer or seller of the property that secures any of the mortgages.
  - Joint ownership in residential real estate (1-4 units) is considered the same as total ownership of an individual property.
  - A borrower, who holds a Limited Partnership interest in an organized Limited Partnership that has been formed for the purpose of real estate investment or development or is a General Partner who has personal liability (obligated on the Note) must take into consideration all properties owned and financed by that partnership. Partnership returns may be required to determine the number of properties owned by the partnership.
  - Ownership in commercial or multi-family (more than 4 units) residential real estate is not included in the limitation.
  - The limitation applies to the number of financed properties, not the number of units. For example, the borrower may own one (1) single family, two (2) 2-unit properties and one (1) 3-4 unit property.
- Borrowers with four or more mortgages with one lender require an Underwriter Exception
- See General Underwriting Guidelines for complete guidelines on Maximum Exposure/Multiple Loans

## Mortgage Insurance

- Mortgage Insurance is required on all loans with LTV > 80%.
- Although Mortgage Insurance is required on all loans with LTV > 80%, Reunion can not guarantee the ability to obtain mortgage insurance on every file. The Mortgage Insurance Companies may have additional restrictions in the following areas:
  - LTV and FICO
  - Debt to Income Ratio
  - Eligible Properties
  - Reserve Requirements
  - Minimum Borrower Investment
  - Documentation Requirements
- The minimum Mortgage insurance coverage is determined by AUS and is reflected on the Feedback Certificate. When less than Standard Coverage is obtained a price adjustment is required.
- Standard Coverage Mortgage Insurance
 

> 20 year:	≤ 20 year
> 95 - 97%: 35%	> 95 - 97%: 35%
> 90 - 95%: 30%	> 90 - 95%: 25%
> 85 - 90%: 25%	> 85 - 90%: 12%
> 80 - 85%: 12%	> 80 - 85%: 6%

## Occupancy

- **Non-occupant co-borrowers**
  - Non-occupant co-borrowers are allowed. Occupancy must be accurately entered in agency AUS. NOTE: DU does not allow the non-occupant co-borrower's income to be used for qualifying.
  - An Established Relationship with the Borrower must exist. Any party with an interest in the property sales transaction (including but not limited to the builder, property seller, or real estate broker) is not eligible as a non-occupant Co-Borrower

- For a non-permanent resident alien, the maximum LTV/CLTV is 80% or the Loan Program maximum, whichever is less
- Additional documentation may be required to establish occupancy
- **Retaining Current Residence**
  - **Pending sale of a current primary residence where the transaction will not close and title will not transfer to a new owner prior to the new transaction**
    - Both the current and proposed PITIA must be included in the qualifying ratios
    - 6 months of reserves for both properties must be documented (reduced reserves of 2 months PITIA on both properties is acceptable if at least 30% equity in current residence is verified)
    - The current principal residence's PITIA does not need to be used in qualifying if the borrower is able to document the following:
      - Executed sales contract for the current residence
      - Confirmation that any financing contingencies have been cleared (if not a cash transaction, document the buyer has been approved for financing and all conditions of the approval have been met.)
      - Reserves as stated above
  - **Current primary residence listed or converted to a second home**
    - Both the current and the proposed PITIA must be used to qualify the Borrower for the new transaction
    - Six months PITIA reserves required for both the retained and subject properties (reduced reserves of 2 months PITIA on both properties is acceptable if at least 30% equity in current residence is verified)
  - **Current primary residence that is converted to an Investment Property**
    - 6 months of reserves for both properties must be documented (reduced reserves of 2 months PITIA on both properties is acceptable if at least 30% equity in current residence is verified)
    - Rental Income
      - Up to 75% of the rental income may be used to offset the mortgage payment to qualify if there is documented equity of at least 30% in the retained property as evidenced by at least a 2055 exterior-only inspection, dated no more than 60 days prior to the Note Date
        - To determine whether the borrower's equity meets the 30 percent minimum requirement, if a borrower has an equity line of credit with an available balance, the entire credit line must be considered in the calculation regardless of whether or not there is an outstanding balance.
        - If the 30% equity in the property cannot be documented, rental income may not be used to offset the mortgage payment
      - The rental income must be documented with a copy of the fully executed lease agreement with a minimum 12 month term and receipt of a security deposit from the tenant and deposit into the Borrower's account. A rental agreement is not acceptable
        - A family member, individual with an established relationship with those involved in the transaction, or an interested party may not sign the lease agreement as the renter
        - A fair market rent letter or Fannie Mae 1007 may also be required
    - If a borrower currently owns and resides in a multiple-unit property rental credit for those units can be considered regardless of the equity position if the other units have been rented and that rental income can be verified on Schedule E. For the unit being vacated by the borrower, to use the proposed rental income, the equity position of at least 30 percent must be confirmed.
- See General Underwriting Guidelines for complete guidelines on Occupancy

## **Property/Appraisal**

- **Eligible Property**

- Single family attached and detached
- 2-4 unit
- PUDs (refer to Conventional Condo and PUD Guidelines for eligibility requirements)
- Condominiums (refer to Conventional Condo and PUD Guidelines for eligibility requirements.)
- Modular / Prefab homes (marketability must be supported with similar comparables)
- **Property Condition**
  - Properties without a working stove require an Underwriter
  - See General Underwriting Guidelines for complete guidelines on Property Condition.
- **Ineligible Property**
  - Unique Properties (i.e., dome, log, geothermal, stilt home, post and pier foundation, one of-a kind luxury residence, etc.)
  - Properties with values in excess of the predominant value (Typically, the subject value should not exceed 150% of the markets predominant value)
  - See General Underwriting Guidelines for complete list of Ineligible Properties
- **Increase in Value / Flipping** - For purchase transactions on recently transferred property, where the seller is not a lending or government institution, the following restrictions apply:
  - A property that is sold within 180 days after acquisition by the seller (calculated from the closing date when the seller purchase the property to the date of the signed purchase contract for the subject transaction) is eligible with the following restrictions:
    - If the sale price of the property is more than the seller's Purchase Price, the appraisal must include an acceptable explanation and documentation to support the difference, including a description of any improvements that were made
    - If the increase in value is due to remodeling or renovation of the property, the appraiser must provide contracts, receipts, and acceptable photos of all improvements to support the increase in value
- **Heating and Cooling Sources**
  - All properties are required to have a permanent source of heat and, if typical for the area, cooling. Space heaters and similar sources are not considered permanent heat sources, even if affixed to a permanent wall.
- **Appraisal Report**
  - Appraisal report type determined by agency AUS Findings
  - Texas 50 (a)(6) loans require full interior/exterior appraisal regardless of agency AUS Findings (refer to Texas Refinance Policy)
  - Appraisal may not exceed 120 days as of the date of the Note. An update of value is required if the appraisal is more than 90 days as of the date of the Note
  - **DU Property Inspection Waiver (PIW)**
    - When Desktop Underwriter recommends a Property Inspection Waiver, an interior and exterior inspection is required when:
      - The subject property does not conform to the neighborhood
      - There are apparent adverse physical deficiencies or environmental conditions  
NOTE: This includes subject's County being declared a federal disaster area within 120 days of application
      - New or proposed construction
      - Home inspection report or other information in the file indicates the presence of adverse condition and/or marketability factors
      - Purchase transactions when the transaction is the result of the sale of an REO property
      - The last transaction on the property being purchased was a foreclosure
    - A \$75 fee is applied if the borrower chooses to utilize a Property Inspection Waiver on a DU loan
- **Transferred Appraisals**
  - Appraisals completed for another lender are not allowed. Appraisal must be ordered through Reunion Mortgage's online portal.
- **Market Rent**

- Market rent and bedroom count must be captured on all non-owner occupied 1-4 unit properties and all owner-occupied 2-4 unit properties, whether or not the rental income is used to qualify the borrower.
- Refer to Market Rent section of General Underwriting Guidelines for documentation requirements on establishing market rent when rental income is not used to qualify.
- **Non-Permitted Additions**  
Properties with non-permitted additions are acceptable
  - Value may be given to these additions as long as the property can be rebuilt “as is”
  - See General Underwriting Guidelines for additional guidelines on Non-Permitted Additions
- **Condominium Project Reviews:** - Refer to Conventional Condominium and PUD Guidelines for complete guidelines on project acceptance and documentation requirements.
- See General Underwriting Guidelines for complete guidelines on Property/Appraisal

## Qualifying Payment

- ARM loans with an initial fixed-period of 5 years or less, the borrower is qualified using payment calculated on greater of Note rate plus 2% or the fully indexed rate (index plus margin)
- ARM loans with an initial fixed-period of more than 5 years, the borrower is qualified using payment calculated on greater of Note rate or the fully indexed rate (index plus margin)

## Transaction Types

- **Purchase**
  - Short Sale transactions require an Underwriter Exception
  - See General Underwriting Guidelines for complete guidelines on Purchase Transactions
- **Refinance**
  - **Continuity of Obligation**
    - For a refinance transaction (either limited cash-out or cash-out) to be eligible there must be a continuity of obligation. If there is currently an outstanding lien that will be satisfied through the refinance transaction an acceptable continuity of obligation exists when:
      - There is at least one borrower obligated on the new loan who was also a borrower on the existing loan being refinanced.
      - The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months with zero late payments or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor. NOTE: Investment properties and Second Homes are not eligible as the borrower does NOT reside in the property.
      - The existing loan being refinanced and the title have been held in the name of a natural person or an LLC as long as the borrower was a member (owner) of the LLC prior to transfer. Title must be transferred to borrower and recorded prior to date of application, and may not be transferred back to LLC after funding. If LLC consists of more than one person, provide a statement from all owners verifying any payment due, if applicable. NOTE: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
      - The borrower has recently inherited or was legally awarded the property (divorce, separation).
    - If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or there is an outstanding lien against the property, the loan is still eligible but with additional restrictions. The loan must be underwritten, priced and delivered as a cash-out refinance transaction with these additional limits:
      - **No outstanding liens (e.g. purchased for cash or previous mortgage loans have been paid off):**
        - If the property was purchased within the 6 to 12 month period prior to the application date for new financing, the LTV ratios will be based on the lesser

- of the original sales price/acquisition cost (documented by the HUD-1 Settlement Statement) or the current appraised value; OR
    - If the property was purchased more than 12 months prior to the application date for new financing, the current appraised value may be used to calculate the LTV ratios.
    - If property was purchased within 6 months prior to application date, loan is not eligible for cash out refinance.
    - **Outstanding liens with no continuity of obligation:**
      - If the borrower has been on title for at least 6 months but continuity of obligation does not exist, the maximum LTV ratios will be limited to 50 percent based on the current appraised value.
  - **Rate and Term Refinance**
    - DU to reflect "Limited Cash Out"
    - The payoff of the outstanding principal balance of an existing first mortgage
      - Hud-1 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 underwritten and coded as cash out.
    - The payoff of purchase money second including any prepayment penalties that are associated with the payoff of the second (A copy of the HUD-1, fully executed and signed by all parties, from the original sale must be obtained to verify that the entire amount being paid off was used to purchase the subject property)
    - The financing of closing costs and prepaid items
    - Cash back to the borrower that does not exceed the lesser of 2% or \$2000
    - Payoff a Construction to Permanent loan transaction
  - **Cash Out Refinance**
    - The mortgage amount may include the present first mortgage pay-off, subordinate liens, closing costs and additional cash to the borrower.
    - At least one borrower must have held title (ownership) to the subject property for a minimum of six months unless all of the following requirements are met:
      - The executed HUD1 Settlement Statement from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property
      - The preliminary title report for the refinance transaction must reflect the Borrower as the owner of the subject property and must reflect that there are no liens on the property
      - The source of funds used to purchase the subject property must be fully documented (such as, bank statements, personal loan documents, HELOC on another property)
        - If funds were borrowed to purchase the subject property, those funds must be repaid and reflected on the HUD1 Settlement Statement for the refinance transaction (such as unsecured loan or HELOC secured by another property)
      - 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 as documented by the HUD1 Settlement Statement
      - The purchase transaction was an arms-length transaction. There must have been no affiliation or relationship between the buyer and seller of the purchase transaction
      - All other cash-out refinance eligibility requirements are met including the applicable LTV/CLTV/HCLTV ratio limits and all other requirements
    - Land Contracts are not eligible for cash out refinance transactions. Land contracts must be treated as a purchase or rate and term refinance.
    - See State Specific Requirements section for Texas Section 50(a)(6) transactions.
    - Properties that have been listed for sale within the six months are eligible with the following restrictions:
      - Maximum LTV/CLTV/HCLTV is 70%
      - Documentation listed in the General Underwriting Guidelines must be obtained
      - Owner occupied properties subject to Texas 50(a)(6) are not eligible
  - **Subordinate Financing**

- Institutional subordinate financing allowed. No city or county subordinate financing.
- Private party or seller carry subordinate financing is not allowed
- Subordinate financing must meet Fannie Mae guidelines
  - No balloon within 5 years
  - Payment must be sufficient to cover interest due
  - Interest rate and payment must be fixed (except for HELOC)
  - No prepayment penalty is allowed.
- Payment calculation for HELOC
  - Existing HELOC:
    - With a balance use the current payment from credit report
    - With zero balance (and no draws are to be used for the new transaction), no payment is included in the qualifying ratio.
    - If an advance will be part of the new transaction, calculate the housing payment by multiplying the total line of credit by 1%. Use the higher of the calculated payment or the payment reported on the credit report
  - New HELOC: Use the higher of 1% of the new HELOC line amount or the actual payment
- File must contain a copy of subordinate lien note. File must contain Subordination Agreement if existing subordinate financing is remaining
- **Subordinate Financing from Borrower's Employer**
  - Secondary Financing obtained from the Borrower's employer may be in the form of an unsecured loan or a mortgage loan and does not need to require regular payments of either principal and interest or interest only. A copy of the contract from the employer describing the terms of the financing is required. The financing may be structured in any of the following ways:
    - Fully amortizing level monthly payments
    - Deferred payments for some period changing to fully amortizing level payments
    - Deferred payment over the entire term
    - Forgiveness of the debt over time
    - If a variable rate (other than Home Equity Line of Credit Program Guidelines), the monthly payment must remain constant for 12 months
    - The change of the payment at the end of each 12-month period cannot exceed 1%
  - Terms must permit the borrower to continue making payments on the loan in the event the borrower no longer works for the employer and may not require repayment in full unless:
    - The borrower terminates their employment for any reason.
    - The employer terminates their employment for any reason other than long-term disability, the elimination of the employee's position or reduction in force.
  - Unsecured loans must also meet the following requirements:
    - Cannot have any provisions that would allow or result in negative amortization.
    - The maturity date must be at least five years from the Note date and cannot exceed the maturity date of the first mortgage.
    - The interest rate cannot be greater than the interest rate on the first mortgage.
  - In order to allow the above assistance from the employer, the following must be documented:
    - That the program is an established company program, not just an accommodation developed for an individual employee
    - The dollar amount of the employer's assistance being offered to the borrower (such as relocation benefits or gifts)
    - That the borrower received the employer assistance directly from the employer, or through the employer-affiliated credit union
  - The borrowers must make the minimum down payment from their own funds
  - Eligible on Primary Residence transactions only
  - Must meet all other requirements for Subordinate Financing
- **Non-Arms-Length Transactions**
  - A Non-Arms-Length (NAL) transaction exists whenever the applicant has a personal or

business relationship with the seller, builder, developer, real estate agent, appraiser, lender providing the financing, Title Company, or any other interested party. Refer to General Underwriting Guidelines for additional requirements for Non-Arms-Length Transactions.

- The following transaction types may not be non-arm's length transactions:
  - DU loans:
    - New construction second homes
    - Investment properties
- See *General Underwriting Guidelines* for complete guidelines on Transaction Types

### Data Entry – Reunion Internal Guidelines

- Special Feature Code 808 must be entered for all High Balance loans
- PIW Requirements
  - **Final** DU findings indicate PIW allowed
  - Special Feature Code 357 entered - NOTE: Do NOT enter 357 if appraisal is obtained
  - Check Disaster Policy Matrix for any disasters
  - Check DataQuick history for prior transaction to verify it was not REO sale