

## DU Refi Plus Product Guidelines

**PRODUCT CODES: C15DURP, C30DURP, CJ15DURP, CJ30DURP**

### Overview

This is a fixed rate product for loans from \$50,000 to the conforming limit. DU Approve/Eligible findings reflecting DU Refi Plus are required for all transactions. Loans that require Mortgage Insurance are not eligible for delivery to Reunion. All loans must conform to Fannie Mae Agency guidelines. If an issue is not addressed in these guidelines refer to Reunion Underwriting Guidelines.

The DU Refi Plus option is intended for borrowers who are not having difficulty making their monthly payments, are current on their payments at the time of refinance, and have not been delinquent by more than 30 days during the past 12 months.

To be eligible for DU Refi Plus, the existing loan must have been purchased by Fannie Mae before June 1, 2009. Once an existing loan delivered before this date has been refinanced, the new loan will not be eligible for further DU Refi Plus consideration because that loan will have been purchased by the June 1, 2009 cutoff date. To determine if Fannie Mae owns the existing mortgage: <http://www.fanniemae.com/loanlookup/>.

### Table of Contents

Assets .....	3
AUS Underwriting Decisions .....	3
Credit/Liabilities .....	4
Debt-to-Income Ratio .....	7
Eligible Borrowers .....	7
Escrow Waivers .....	7
Income .....	7
Maximum Financed Properties .....	13
Mortgage Insurance .....	14
Net Tangible Benefit .....	14
Occupancy .....	15
Property/Appraisal .....	15
Subordinate Financing .....	16
Transaction Type .....	16

### Program Codes

- C15DURP 15-year Fixed Rate
- C30DURP 30-year Fixed Rate
- CJ15DURP 15-year Fixed Rate High Balance Mortgage
- CJ30DURP 30-year Fixed Rate High Balance Mortgage

### Disclosure/Program Information

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

### DU Refi Plus

Owner-Occupied Primary Residence					
Purpose	Units	LTV	CLTV	HCLTV	FICO
R/T <sup>1</sup>	1-4	95	95	95	620
Second Home					
Purpose	Units	LTV	CLTV	HCLTV	FICO
R/T	1	95	95	95	620
Investment Property					
Purpose	Units	LTV	CLTV	HCLTV	FICO
R/T	1-4	95	95	95	620

<sup>1</sup> Texas Section 50(a)(6) transactions are not eligible

### DU Refi Plus Requirements

- DU Approve/Eligible reflecting DU Refi Plus approved required
- LP Decisions: Not eligible
- Maximum loan amounts: C15DURP, C30DURP
  - 1-Unit \$417,000
  - 2-Unit \$533,850
  - 3-Unit \$645,300
  - 4-Unit \$801,950
- Maximum loan amounts: CJ15DURP, CJ30DURP
  - 1-Unit \$625,500
  - 2-Unit \$800,775
  - 3-Unit \$967,950
  - 4-Unit \$1,000,000
- Cash back to the borrower is permitted up to a maximum of \$250 to allow for changes in closing costs.
 

**NOTE:** If the amount exceeds \$250, a principal curtailment of 2% or \$2000 whichever is less is permitted at closing and must be on the HUD 1. (No cash to borrowers) If the amount exceeds 2% or \$2000, then the loan must be recalculated, resubmitted to DU, re-approved and new documents drawn and signed by the borrower

## 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.
    - 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.
- See General Underwriting Guidelines for complete guidelines on Assets

## AUS Underwriting Decisions

- DU Decisions: Approve/Eligible
  - DU Findings must indicate loan is approved as DU Refi Plus
- DU findings reflect the following message "This loan casefile was underwritten according to the DU Refi Plus expanded eligibility guidelines offered on certain limited cash-out refinance loan casefiles where the borrower's existing loan is identified by DU as a Fannie Mae loan. This loan casefile must be delivered with Special Feature Code 147."
- LP Decisions: Not eligible
- All conditions outlined in the findings report must be satisfied
- Loans that require Mortgage Insurance are not eligible
- Employment and income may be documented per DU findings except as follows:
  - Salary: Recent paystub reflecting YTD earnings and last year W-2 form(s)
  - Self-employed/Commission: 1 year 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.
- See General Underwriting Guidelines for complete guidelines on AUS Underwriting Decisions

## 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.
- **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.
  - If the credit report is more than 30 days old as of the date of the Note, Reunion will pull a refreshed credit report and review for any new credit lines or any additional inquiries.
    - The refresh credit report must meet the requirements outlined in Third Party Origination Procedure for Credit Reports.
    - Any additional inquiries found on the refresh credit report must be documented with an LOE from the borrower and documentation of any new accounts opened.
- **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**
  - The payoff of debts through closing is prohibited on DU Refi Plus transactions
  - Revolving: If an account will be paid off and closed prior to 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; however the debt must be paid off prior to closing. Installment debts paid off do not need to be included in the total debt ratio.
  - When debts are being paid off, the payoff must be documented and the source of funds verified.
  - Verification that the debt has been paid must be provided by one of the following:
    - A supplemental credit report
    - Verification from the creditor
- **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.
- **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.

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:

- Pre-foreclosure/short sale/deed-in-lieu
- Prior Restructure Reflected in Credit History.

**NOTE: An existing restructured loan being refinanced is not eligible.**

Recovery time requirements are based on the date of discharge, dismissal or completion to the date of the application.

	Recovery Time	Maximum LTV/CLTV/HCLTV
<b>Foreclosure</b>	7 years	Max Financing
<b>Pre-foreclosure</b>	7 years	Max Financing
<b>Short Sale</b>	4 years	90%
<b>Deed In Liu</b>	2 years	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.

- **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.
  - 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

- The Maximum DTI is determined by DU

## Eligible Borrowers

- A borrower may be removed from a new loan subject to the following requirements:
  - The remaining borrower must provide evidence that he or she has been making payments on the existing mortgage from his or her own funds for the most recent 12-months prior to the origination of the new mortgage (the 12-month payment history must be on the existing mortgage), and
  - The borrower(s) removed from the loan must also be removed from the deed. If a borrower is removed as the result of a death, the 12-month payment history and removal of the borrower from the deed is not required, although the remaining borrower must provide evidence of the previous borrower's death.
- A borrower may be added, provided the original borrower remains.
- Co-borrower does not have to occupy the property subject to compliance with standard agency non-occupant co-borrower guidelines as follows:
  - Occupant borrower must qualify for loan
  - Non-occupant borrower must be on separate application
- See General Underwriting Guidelines for complete guidelines on Borrowers

## Escrow Waivers

- Escrow waivers are allowed

## 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.
- **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). If the employer does not provide an acceptable computer generated pay stub, the following is required
  - Most recent year's income tax return
  - A copy of the payroll ledger or other company record signed by the appropriate company representative
  - A written VOE
- 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 business
  - Business License verification (copy of license or internet printout)
  - Borrowers that generate business from their residence and are not required to obtain a license may be required to provide the following documentation
    - Letter from CPA that prepared their tax returns
    - Yellow Page advertisement
    - Business Card
    - Reference letters
  - 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**
  - Rental income on the subject investment property when borrower does not have a two year history managing rental property is an Underwriter Exception
  - When lease agreements are used to substantiate rent, the leases must be fully executed for a minimum of 12 months.
  - **Subject Property**
    - 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 regardless if rental income is used for qualifying
    - Comparable Rent Survey (FNMA 1007) is required for all 1-unit Investment properties regardless if rental income is used for qualifying
    - Fully executed Lease Agreement(s) are required
    - Rental income calculations:
      - 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

## Maximum Financed Properties

- Owner Occupied – no limit to the number of financed properties
- Second Home or Investment Properties – borrowers with more than 4 financed properties require an Underwriter Exception

- 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.
- See General Underwriting Guidelines for complete guidelines on Maximum Exposure/ Multiple Loans

## Mortgage Insurance

The requirement for Mortgage Insurance is indicated in the DU Findings based on the following:

Original Loan LTV	Existing MI Coverage	MI Coverage for New Loan
80% or less	None	Not required
Over 80%	None (MI was previously canceled or terminated per Fannie Mae requirements)	Not required
Over 80%	Yes	The level of MI coverage in force on the existing loan or standard coverage

- A new MI policy must be obtained from a Reunion approved Mortgage Insurance Company. Refer to [Mortgage Insurance Partners](#) page.
- Standard Coverage to be obtained when the existing MI coverage level can not be documented
 

> 20 year:	≤ 20 year
> 90 - 95%: 30%	> 90 - 95%: 25%
> 85 - 90%: 25%	> 85 - 90%: 12%
> 80 - 85%: 12%	> 80 - 85%: 6%
- NOTE: The MI coverage level provided on the DU Underwriting Findings Report is based on the information available to Fannie Mae at the time of the DU Refi Plus transaction for the existing loan. To ensure that the borrower is receiving the benefit of the MI flexibilities based on the borrower's current situation, the underwriter must confirm that the amount of MI coverage provided on the DU Underwriting Findings Report is, in fact, the coverage level currently in effect on the existing loan.

## Net Tangible Benefit

- Principal and interest payment for the new loan must be lower than the existing loan, unless the loan is being refinanced into a more stable product documented by a copy of the existing Note.
  - Refinancing an ARM product to a Fixed Rate
  - Refinancing an Interest only product to a fully amortizing product

- Refinancing a 30-year term to a 15-year term, whereby amortization is accelerated and equity is built up faster
- Refinancing from a shorter term to a longer term (i.e., 30-year fixed to a 40-year fixed) would only be considered a benefit if there is also a payment reduction.

## Occupancy

- **Non-occupant co-borrowers**
  - Non-occupant co-borrowers are allowed. Occupancy must be accurately entered in agency AUS. NOTE: DU typically will 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
  - The occupant borrower must have income
- See General Underwriting Guidelines for complete guidelines on Occupancy

## Property/Appraisal

- Appraisal report type determined by DU Findings
- DU Refi Plus property fieldwork waiver (FIW)
  - Eligible on 1 unit property
  - The final submission of the loan casefile to DU resulted in a property fieldwork waiver offer
  - The property fieldwork waiver offer is not more than 120 days old on the date of the note and the mortgage.
  - A \$75 FIW Fee is applied if waiver option is exercised.
  - It is the borrower's choice on whether to exercise this option.
  - DU Refi Plus FIW Certification must be completed and signed by borrower(s)
  - DU Refi Plus property fieldwork waiver (FIW) is not allowed:
    - If the lender has reason to believe that an appraisal is warranted based on additional information obtained about the property or subsequent events such as a hurricane or other natural disaster – FEMA website must be reviewed for Disasters. If Disaster has been declared for the subject property's county since the closing of the mortgage being refinanced, the minimum level of property fieldwork as specified by DU is required (Refer to Reunion Disaster Policy)
    - If the last transaction was an REO sale, the minimum level of property fieldwork as specified by DU is required
- **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 complete guidelines on establishing market rent.
- Project Approval: Lenders will not be required to perform a project review for condominium, cooperative, or PUD projects, but the lender must confirm that the property is not in a condominium or cooperative hotel or motel.
- Properties that have been listed for sale are eligible with the following restrictions:
  - Property has been taken off the market on or before the application date.
  - Borrower confirms the intent to occupy if a primary residence
- See General Underwriting Guidelines for complete guidelines on Property/Appraisal

## Subordinate Financing

- Subordination of existing junior liens permitted
- Institutional subordinate financing allowed. No city or county subordinate financing.
- Subordinate financing must meet FNMA 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
  - With a balance use the current payment from credit report
  - With zero balance - no payment is included in the qualifying ratio
- File must contain a copy of subordinate lien note. File must contain Subordination Agreement if existing subordinate financing is remaining
- Multiple subordinate liens require an Underwriter Exception
- Subordinate liens may not be paid via DU Refi Plus proceeds transaction
- Subordinate liens may be paid off with borrower's own funds. No money from the first lien proceeds may be used towards the payoff (this includes any incidental cash back).
- New subordinate liens may not be added to subject transaction

## Transaction Type

- Eligible
  - Rate and Term (no cash-out) refinance of existing FNMA (Fannie Mae) first lien only.
  - Cash back to the borrower may not exceed \$250. NOTE: No cash-back is allowed on a primary residence in Texas.
    - If the amount exceeds \$250, a principal curtailment of 2% or \$2000 whichever is less is permitted at the closing table and must be on the HUD 1. (No cash to borrowers)
    - If the amount exceeds 2% or \$2000, then the loan must be recalculated, resubmitted to DU, re-approved and new documents drawn and signed by the borrower
- Ineligible
  - Texas Section 50(a)(6)

### Data Entry – Reunion Internal Guidelines

- Special Feature Codes must be entered in comments on the 1008
  - 147 all DU Refi Plus loans
  - 807 when FIW is used
- Project ID: Type V Condo
- The Net Tangible Benefit must be noted in the comments on the 1008
- FIW Requirements
  - **Final** DU findings indicate FIW allowed
  - Check Disaster Policy Matrix for any disasters
  - Check DataQuick history for prior transaction to verify it was not REO sale
  - DU Refi Plus FIW Certification completed and signed Borrower(s)