

# HomePath® Mortgage Product Guidelines

**PRODUCT CODES: HP10, HP15, HP20, HP30, HPJ30**

## Overview

HomePath Mortgage is available for purchase transactions of eligible Fannie Mae REO properties. It is a fixed rate product for loans from \$50,000 to the conforming limit. All loans must meet Fannie Mae requirements and have DU Approve/Eligible findings. If an issue is not addressed in these guidelines, Fannie Mae requirements apply. HomePath Renovations Mortgages are not eligible.

\* HomePath is a registered trademark of Fannie Mae

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### Product Codes

- **HP10:** 10 Year Fixed Rate
- **HP15:** 15 Year Fixed Rate
- **HP20:** 20 Year Fixed Rate
- **HP30:** 30 Year Fixed Rate
- **HPJ30:** 30 Year Fixed Rate High Balance

### HomePath Mortgage

Owner-Occupied Primary Residence					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Purchase	1	95	95	95	660
Purchase	1-2	80	80	80	620
Purchase	3-4	75	75	75	620
Second Home					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Purchase	1	90	90	90	660
Purchase	1	80	80	80	620
Investment Property					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Purchase	1	85	85	85	660
Purchase	1	80	80	80	620
Purchase	2-4	75	75	75	620

### HomePath Mortgage Requirements:

- Eligible Program Codes: **HP10, HP15, HP20, HP30**
- DU Approve/Eligible required
- Maximum loan amounts:
  - 1-Unit      \$417,000
  - 2-Unit      \$533,850
  - 3-Unit      \$645,300
  - 4-Unit      \$801,950

### HomePath Mortgage High-Balance

Owner-Occupied Primary Residence					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Purchase	1	90	90	90	700
Purchase	1	75	75	75	660
Purchase	2-4	75	75	75	740
Second Home					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Purchase	1	65	65	65	740
Investment Property					
Purpose	Units	LTV	CLTV	HCLTV	FICO
Purchase	1-4	65	65	65	740

### HomePath Mortgage High-Balance Requirements:

- Eligible Program Codes: **HPJ30**
- DU Approve/Eligible required
- 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 specific high-cost areas. The actual loan limits are established for each county (or equivalent). The original principal balance of a Mortgage must not exceed the maximum loan limit for the area in which the Mortgaged Premise is located. For exact loan limits, visit the Federal Housing Finance Agency: [http://www.fhfa.gov/webfiles/21269/FullCountyLoanLimitList\\_HERA-BASED\\_FINAL\\_Z.xls](http://www.fhfa.gov/webfiles/21269/FullCountyLoanLimitList_HERA-BASED_FINAL_Z.xls)

## Appraisal / Property Valuation

- Property must be owned by Fannie Mae and designated by Fannie Mae as eligible for a HomePath Mortgage
- Property must be eligible for HomePath Mortgage financing. The file must be documented with the appropriate pages printed from [www.homepath.com](http://www.homepath.com) showing that the property was eligible for HomePath Mortgage financing. Properties that reflect only HomePath Renovations Mortgage are not eligible. When both HomePath Mortgage and HomePath Renovations Mortgage the property is eligible.
- No Appraisal is required. **If an appraisal is obtained by Lender or any party other than the borrower, as expressly provided below, then the mortgage is ineligible for HomePath financing.**
- The sales price of the property (as evidenced by the sales contract between Fannie Mae and the buyer/borrower) will be used as the property value for the purposes of loan delivery and for determining the LTV/CLTV/HCLTV.
- **Fannie Mae REO Resale Restrictions are acceptable (property cannot be sold within 90 days for less than the purchase price)**
- The purchase contract must indicate the borrower is using Fannie Mae HomePath Mortgage financing.
  - Contract addendums must be checked to confirm that “Fannie Mae Special REO Financing from a participating lender” is indicated. This is in Section 3 titled Financing. “Fannie Mae Special REO Financing” is HomePath Mortgage financing.
- If the borrower chooses to obtain an appraisal, then:
  - The borrower must order the appraisal from an appraiser selected by the borrower (and not one recommended by the Lender), and the appraisal must be paid for by the borrower outside of the loan transaction.
  - Lender must not request a copy of the appraisal, but if one is provided by the borrower then it must be included in the loan file with a note that the appraisal was ordered by the borrower outside of the loan transaction and was not reviewed or approved by the Lender.
  - The property value shown on the appraisal will not impact the LTV calculation
  - Lender must inform the borrower that the purpose of the borrower-ordered appraisal and its contents are for the use and information of the borrower only, and will not be considered for purposes of the loan transaction.
- Eligible Property types
  - Single Family Residence (SFR)
  - Condo
  - PUD
  - 2-4 Unit
- **Market Rent** - The rental income for each unit must be provided for all investment properties including all owner-occupied 2-4 unit properties.
  - Rental Income from subject property must be verified with 216 Operating Income Statement and 1007 Single Family Rental Survey when the rental income is used to qualify.
  - A letter from the Real Estate Agent indicating the market rent for each unit may be used when the income is not used to qualify.
- Condominium/PUD

- Project warranty is not required
- Insurance requirements must be met – Refer to Condominium and PUD Guidelines
- The amount of the monthly HOA dues must be verified and included in the DTI for all loans secured by Condo or PUD

## 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.
- **Borrower Investment**
  - No minimum borrower investment is required when:
    - 1 Unit Primary Residence (excluding High Balance Mortgages > 80%)
    - 2-4 units < = 80%
    - Second Homes < = 80%
  - 5% investment from borrower's own funds is required when:
    - 2 – 4 units Primary Residence > 80%
    - High Balance Primary Residence > 80%
    - Second Homes > 80%
  - Investment properties require entire down payment and closing from borrower's own funds
- **Gifts**
  - Primary Residence and Second Homes
    - Acceptable provided Borrower Investment is met.
  - Investment Properties
    - Gifts are not permitted.

- Gift funds may not be used for meeting reserve requirements
- 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.
- **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.
- **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
- **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
- **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 but will be 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
- **Reserves**
  - Regardless of DU requirements, the following reserves are required:
    - Subject Property
      - Owner Occupied: 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
    - 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**

- DU reflecting one of the following recommendations is required:
  - Approve/Eligible
- My Community Mortgage (MCM) loans are not eligible
- LP Decisions: Not eligible
- All conditions outlined in the findings report must be satisfied except the following DU Messages may be disregarded
  - Any message relating to amount of MI required (however minimum representative credit score for each borrower is 660 unless higher score is required for program)
  - Any message that says the maximum allowable interested-party contribution has been exceeded on a principal residence with LTV over 90%
  - Any message related to the appraisal/property inspection
- See General Underwriting Guidelines for complete guidelines on AUS Underwriting Decisions

## Borrowers

- Eligible Borrowers
  - US Citizens
  - Permanent Resident Aliens
  - Non Permanent Resident Aliens
- All borrowers must be US Citizens for loan amounts > \$500,000
- 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.
- Maximum contribution percentage allowed:
  - **Primary Residence and Second Home**
    - CLTV >75% - 95%, maximum contribution is six percent (6%)
    - CLTV ≤ to 75%, maximum contribution is nine percent (9%)
  - **Investment Property**
    - Maximum two percent (2%) contribution, 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 Automated Underwriting System (AUS) recommendation.
  - If the primary account holder is another borrower on the transaction no further action is required.
  - If the primary account holder, including non-borrowing spouses, is not another borrower on the transaction and the credit report shows any of the following characteristics, it strongly indicates the borrower's credit profile does not meet the required credit report standards and the following documentation is required:

Credit Characteristics	Required Documentation
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> <li>• The credit limits on authorized user accounts are significantly higher when compared 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 to document that the borrower(s) has been making payments on the account(s).</li> </ul>

<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>
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▪ **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**

- 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.

- The borrower's liquid assets must be manually reduced in the AUS by the amount being paid off.
- 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
- **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, preforeclosure 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, preforeclosure, 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 preforeclosure 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 and LP 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.				
	DU		LP	
	Recovery Time	Maximum LTV/CLTV/HCLTV	Recovery Time	Maximum LTV/CLTV/HCLTV
<b>Foreclosure</b>	7 years	Max Financing	7 years	Max Financing
<b>Pre-foreclosure/ Short Sale/ DIL</b>	7 years	Max Financing	7 years	Max Financing
	4 years	90%	4 years	O/O Purchase: 90%
	2 years	80%		R/T Refi: Max Financing <b>Ineligible</b> C/O Refi Purchase: 2nd home & investment

<b>Prior Restructure Reflected in Credit History</b>	With mortgage delinquencies: 4 years	Max Financing	7 years 4 years	Max Financing O/O Purchase: 90% R/T Refi: Max Financing <b>Ineligible</b> C/O Refi Purchase: 2nd home & investment
<b>Bankruptcy Excluding Ch 13</b>	4 years	Max Financing	4 years	Max Financing
<b>Bankruptcy Chapter 13</b>	2 years: discharge 4 years: dismissal	Max Financing	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	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
- **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

- Ratios 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 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 45 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.
- **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
- **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**
    - Borrower must demonstrate a recent two-year rental property management history if subject is a 1-4 unit investment property to use rental income for qualification property (this requirement may be waived with an Underwriter Exception if loan is approved through Desktop Underwriter)
    - 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 Lease Agreement(s) are required
- Borrower qualifies using the amount established by the appraiser in the Operating Income Statement.
- **Other property**
  - Properties owned for one or more complete tax years average from the borrowers most recent personal tax returns
    - LP always requires two years 1040s, DU typically requires only one year 1040
  - Properties owned for less than one complete tax year use the lesser of
    - 75% of actual rent from 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

- Loans secured by Second Home or Investment Property limit the number of financed 1-4 family properties that all borrowers may own to a total of four including the subject
  - 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 not required

## 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

## Subordinate Financing

- Subordinate financing is eligible per Fannie Mae Guidelines

### Reunion Data Entry

- Special Feature Codes must be entered in comments on the 1008
  - 057 for all HomePath Mortgages
  - 150 Investment and Second Home with 5 to 10 financed properties – exception required
- Appraiser: HomePath
- Project Classification
  - Condo: V
  - PUD: E
- Investment Properties: Rental Income must be reflected on UND8 regardless if rental income is used in qualifying