



## Conventional Underwriting Guidelines

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## Conventional Underwriting Guidelines

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### GENERAL

These Underwriting Guidelines describe our underwriting requirements for one-to-four family conventional mortgages. The Guidelines are designed to establish and implement sound underwriting criteria, as well as to serve as a reference tool in tandem with the Flagstar Bank Product Descriptions. These Underwriting Guidelines are meant to support and supplement our one-to-four family conventional mortgage products. Please refer to our Product Descriptions for specific program criteria. Our full range of product descriptions is available to our customers at [wholesale.flagstar.com](http://wholesale.flagstar.com).

The guidelines referred to in these guidelines are for conforming conventional first mortgages and can be superseded by changes made by secondary market investors, Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and is not intended to replace FNMA or FHLMC Guidelines. In addition to these guidelines:

- All Federal Housing Administration (FHA) loans must conform to all Transmittal Handbooks issued by the U.S. Department of Housing and Urban Development (HUD).
- All Veterans Administration (VA) loans must conform to the VA Lenders Handbook, VA pamphlet 26-7, rev. 01/01.
- All Michigan State Housing Development Authority (MSHDA) loans must conform to the MSHDA manual.

Furthermore, all guideline changes made by the above mentioned investors are hereby incorporated into these guidelines.

Flagstar Bank reserves the right to reject any loan that receives a *Caution* response from an automated underwriting system.

The borrower's submission must contain sufficient information for the underwriter to reach an informed decision about whether to offer a commitment to purchase the application. The underwriter will consider all aspects of the borrower's credit before approving or declining an application. The borrower's credit-worthiness will be evaluated on a case-by-case basis. Loans may be approved by any duly appointed underwriter or by any duly appointed senior management officer. All significant deviations of standard underwriting procedures or guidelines shall be reviewed and approved by senior management. All significant deviations of this policy are to be approved by the Board of Directors. As changes are deemed necessary, this policy will be reviewed and revised.

When considering a loan for purchase, Flagstar Bank will evaluate all aspects of the loan file. Although no one area of a particular loan may be weak enough to merit a denial, a compilation of several weak areas with no or limited strength to compensate can be sufficient to deny. When evaluating these "layers of risk," Flagstar Bank considers LTV and program parameters, ratios, payment shock, reserves, credit (to include paying down debts, recently opened debt, "maxed-out" credit cards), savings pattern, employment stability, percentage of borrower's own funds and a supported appraised value.

Those layers independent of a borrower's credit but equally valid in considering risk are program type (ARM or Balloon mortgages add an additional layer of capacity risk) or property type (2 to 4-Unit properties or condominiums add an additional layer of collateral risk). For example, if the mortgage requested is an ARM, has maximum financing, the borrower's debt ratios exceed guidelines and the borrower has minimal reserves, there is layered risk within the borrower's capacity and the overall risk of the loan may not be investment quality, even if the borrower has a strong credit reputation.

It is Flagstar Bank's firm position that we are an investor, not a creditor. We provide you with a letter demonstrating a "commitment to purchase" a mortgage loan, not a credit approval of your borrowers. Since



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you are not an agent of Flagstar Bank, your customer does not become a customer of Flagstar Bank until we purchase their loan.

### ADJUSTABLE RATE MORTGAGES

Per Federal Regulation Z it is required that an *ARM Disclosure* is signed by the borrower within three days of initial application. In order to comply with this regulation, Underwriting will condition for the ARM Disclosure prior to closing.

### ADVERSE ACTION LETTERS

Please refer to *Compliance, Doc. #4801* for information regarding adverse action letters.

### CALIFORNIA CREDIT SCORE DISCLOSURE

The state of California requires lenders to give free credit scores to California customers applying for home loans or any other consumer loan secured by real estate, even if the information is not requested. Under the California civil code, lenders must provide a standardized notice to each consumer loan applicant disclosing the following information:

- A copy of the current score or most recent score previously calculated for the extension of credit
- The range of possible scores in the model
- The factors that adversely affect the score
- The date the score was created
- The name of the entity creating the score
- The name, telephone number and address of each credit bureau providing the score

To comply with this code, Flagstar Bank will mail a credit score disclosure directly to California consumers on whom a credit decision has been made. Flagstar Bank will only provide the California consumer with the credit score disclosure, not a letter of status (such as a purchase commitment or statement of denial).

### CONFLICT OF INTEREST

Transactions in which the realtor and originator is the same individual are ineligible.

### DOCUMENT EXPIRATION

The maximum age of credit documents is 120 days for existing construction and 120 for new construction. Credit documents include credit reports and employment, income and asset documentation. All credit reports must be dated within 60 days of underwriting. For appraisals the maximum age is 120 days. The age of documents is measured from the date of the document to the date the note is signed. Freddie Mac Open Access and Freddie Mac Relief the loan must close and fund by the document expiration date.

### ELECTRONICALLY SIGNED APPLICATION DISCLOSURES

Refer to *Electronic Signature Policy, Doc. #4816*

The mortgage insurance certificate must be in Flagstar Bank's name or assigned to Flagstar prior to closing or changed at closing if the loan is being table funded.

Loan submissions should be as complete as possible to ensure timely review. At the underwriter's discretion, we may require original documentation on any program type at any time.

### ESCROW/IMPOUND FUNDS

Flagstar Bank requires monthly deposits of escrow funds to pay taxes, mortgage insurance premiums, hazard insurance premiums and assessments as they come due. If a special assessment levied against the property is not paid at loan closing, the monthly payment must include 1/12 of any estimated annual payment toward the assessment. A recorded subordination agreement is required if the assessment is a lien on the property. We do not require escrow deposits for hazard insurance on condominiums that are covered by a blanket insurance policy. For more information on escrows/impounds, refer to *Aggregate Accounting for Calculation of Escrow Accounting*, [Doc. #4609](#).

### ESCROW/IMPOUND WAIVER

Flagstar Bank will consider a request for an escrow waiver. All escrow waiver requests should be noted on the Transmittal Summary. Underwriting must approve the escrow waiver prior to closing. The application should meet the following requirements:

- Escrow Waiver Request should be noted on the 1008 Form.
- LTV must be 80% or less\*
- Allowable on owner occupied and second home properties with an Accept or Approve from LP/DU and a minimum credit score of 620. No assets other than those required by LP/DU need to be verified.
- Allowable on investment properties with an Accept or Approve from LP/DU and a minimum credit score of 700. LP/DU required assets, in addition to one-year of taxes, must be verified.
- A pricing adjustment of -0.150 will be charged for all approved escrow waivers

Flagstar Bank will consider a request for an escrow waiver For Freddie Mac Relief Open Access and the DU Refi Plus that Flagstar Bank is not the current servicer and the LTV is greater than 80%. The application must meet the following requirements:

- Must document previous mortgage did not have an escrow account
- Reserves equal to 12 months of taxes and insurance, this is above what is required per AUS
- Taxes cannot be delinquent
- Owner occupied properties borrower must have a minimum credit score of 640
- Second home properties borrower must have a minimum credit score of 660
- Investment properties borrowers must have a minimum credit score of 660
- A pricing adjustment of -0.150 will be charged for all approved escrow waivers

The standard escrow provision must remain in the mortgage documents. Flagstar Bank may, at its discretion, enforce the requirement if the borrower fails to act responsibly.

Escrow waivers are subject to underwriting approval and are not allowed on loans requiring Mortgage Insurance. Due to state law, for California loans ONLY, escrow waivers are permitted up to a 90% LTV; however, mortgage insurance must be escrowed by Flagstar Bank. Under no circumstances, in any state, can mortgage insurance escrows be waived when MI is required.

Products utilizing Lender Paid Mortgage Insurance or the *NO MI* option are not eligible for escrow waivers. It is the responsibility of the originator to understand and be in compliance with individual state regulations regarding escrow waivers and fees. Please refer to the Residential Mortgage Lending State Regulation Manuals for specific State requirements.

### EXCEPTIONS

Any loan file may be submitted to Flagstar Bank for an exception to the guidelines. The exception can be reviewed only by a designated Officer of the Bank. These exceptions will be reviewed on a case by case basis depending on the overall loan file. Exceptions will only be permitted on a per transaction basis, no blanket exceptions will be allowed.

Minor exceptions to these guidelines may be made by an employee with loan authority (as defined in the Loan Policy) as long as it is determined the loan has compensating factors. All minor exceptions must be noted on the 1008 of the loan file.

### INELIGIBLE PARTICIPANTS

If any of the participants associated to the loan transaction are listed on Flagstar Bank's Ineligible List (Internal), the loan may not be approvable.

### LENDING POLICY

It is the policy of this Bank that it will not deny a loan or discriminate in fixing the amount, interest rate, duration, application procedures or other terms or conditions of the loan on the basis of age, location of the dwelling or on the basis of the race, color, religion, sex, handicap, familial status, marital status, age or national origin of an applicant, joint applicant or guarantor.

The person responsible for this policy is the manager of underwriting. The compliance officer will enforce this policy. The distribution will be to all administrative officers, directors, all underwriters, loan center managers, compliance officer and internal control officer.

### LIENS

The mortgage must be a valid first lien on the mortgaged premises. The mortgaged premises must be free and clear of all liens and encumbrances and no rights may be outstanding that could give rise to such liens, except for liens for real estate taxes and special assessments not yet due and payable. Any additional liens to the aforementioned mortgage must be either paid off or subordinated with a recorded and approved subordination agreement.

### LOAN DISCLOSURES

Flagstar Bank requires new underwriting submissions to include a copy of the initial Truth-In-Lending statement and Good Faith Estimate. In addition, Flagstar will require a dated loan application to verify that both disclosures are dated with three days of the application. The loan originator is responsible for the integrity of the disclosure of rates and fees. The Truth-In-Lending statement and Good Faith Estimate should accurately reflect the fees and charges that are expected to be associated with the loan. The initial Truth-In-Lending and Good Faith Estimate must be dated within 3 business days of the date of the initial application and clearly state the name of the lender per Federal Regulation. Both documents must also be submitted with the closing package. The TIL must comply with all MDIA guidelines and meet all applicable waiting periods. The GFE must be compliant with all RESPA guidelines and any change made from the initial document must be allowable based on an acceptable changed circumstance. For more information on compliance, please reference *Compliance*, [Doc. #4801](#).

If we are unable to purchase a loan as initially submitted but can extend a counter offer under an *A Minus* program, an updated Good Faith Estimate and Truth-In-Lending disclosure will be required, prior to closing, disclosing new loan terms such as new rate and/or mortgage insurance premiums.



## Conventional Underwriting Guidelines

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### LOAN SUBMISSIONS

Please refer to *Conventional Submission Review Checklist*, [Doc. #3204](#).

### LOAN VERIFICATIONS

All Verifications of Deposit (VOD), Verifications of Employment (VOE) and Verifications of Mortgage or Rent (VOM) must be sent directly by the lender and received back directly to the lender without being transmitted through the applicant or any other party. We do not allow verifications to be hand carried. Flagstar Bank may verbally verify the information on a VOE or VOD with the borrower's employer/asset holder.

### MULTIPLE LOANS TO THE SAME BORROWER

If a borrower is applying for more than one loan through Flagstar Bank, all loans must be submitted to Underwriting at the same time and each loan must reference the other loan(s). If a borrower submits multiple, simultaneous cash-out transactions, the combined cash back for all loans will be limited to \$500,000.

#### **FANNIE MAE**

If a new mortgage is secured by a second home or investment property, the borrower may not own more than ten properties (includes his/her principal residence) that are currently being financed. This limit applies to any combination of ownership in 1 to 4-Family properties. Properties held in the name of a LLC must be included in the total number of financed properties regardless if the mortgage is held in the name of the LLC. Refer to *Fannie Mae Multiple Property Program*, [Doc. #5351](#) for all transaction in which the borrower owns 5-10 financed properties. Non purchasing spouse properties will be included.

#### **FREDDIE MAC**

If a new mortgage is secured by a second home or investment property, the borrower may not own more than four properties (includes his/her principal residence) that are currently being financed. This limit applies to any combination of ownership in 1 to 4-Family properties. Additionally for Freddie Mac, for borrowers who own more than one financed investment property, the new subject investment property mortgage must be a 15, 20 or 30-year fixed-rate mortgage or a 7/1 or 10/1 ARM only. Also, Freddie Mac will require evidence of rent loss insurance for all of the borrower's financed investment properties. Properties held in the name of a LLC must be included in the total number of financed properties regardless if the mortgage is held in the name of the LLC. Non purchasing spouse properties will be included.

Flagstar Bank will not approve or close more than 5 loans to any one borrower or an aggregate loan amount total of \$2,000,000. When determining if the limit has been met, new loan submissions for a borrower must take into consideration any of that borrower's outstanding loans with Flagstar Bank that are:

- non-closed,
- closed and currently serviced by Flagstar Bank or
- closed but the servicing rights have been sold within the last 24 months

A Senior Vice President or higher may make an exception to the dollar amount or number of loans an individual may have with Flagstar Bank.

### NON-ARMS LENGTH TRANSACTION

Any transaction where there is a relationship or business affiliation between the buyer and seller. Non-arm length transactions include, but are not limited to:

- Applicants related by blood or marriage to the seller
- Fiancé, fiancée or domestic partner
- Employer – business partner
- Renters buying from landlord
- Trading properties with seller
- Builder/developer

### NOTICES REGARDING ESCROWS AND TRANSFER OF SERVICING

The underwriting package must contain the *Notice Regarding Escrows* and the *Notice Regarding Transfer of Loan Servicing*, as required by the Real Estate Settlement Procedures Act Amendment dated 11/28/90.

### NOTARY

Refer to *Settlement/Closing Requirements*, [Doc. #4601](#) for details.

### POWER OF ATTORNEY

Flagstar Bank allows a Power of Attorney (POA) for closing documents in connection with a loan as long as the following conditions are satisfied:

- The application and Purchase Agreement (if applicable) must be signed by all parties of the loan. A POA is not allowed to sign the application or the purchase agreement.
- The transaction must be a purchase or rate/term refinance only. Cash-out refinances and bridge loans are only allowed with a Military Durable POA.
- Property must be an owner occupied principle residence or second home. No exceptions for investment properties.
- All signatures on the POA must be notarized and the POA must be reviewed by a Flagstar Bank underwriter. Signatures on the POA must match signatures in the file to Flagstar Bank's satisfaction.
- The POA must be specific to Flagstar Bank's loan indicating property address unless it is a Military Durable POA, which does not have to indicate the specific property.
- There must be more than one borrower on the loan and at least one borrower present at the closing.
- POA is not allowed for single borrower transactions unless Flagstar Bank has borrower experience and can compare signatures from previous transactions.
- The title policy must not make any exceptions based upon the use of the Power of Attorney.

In all other instances, power of attorney for closing documents with a loan is prohibited unless there is an expressed written waiver executed by the Underwriting Manager.

Documents completed with a Power of Attorney must be completed in one of the following manners shown in the exhibit below to be valid:



## Conventional Underwriting Guidelines

Completed Documents	
Pass	Fail
Jane Smith as AIF for Chris Jones pursuant to POA dated mm/dd/yyyy Chris Jones	Jane Smith Chris Jones
Chris Jones by Jane Smith, AIF (or POA) Chris Jones	Jane Smith Jane Smith, Attorney-in-Fact
Chris Jones by Jane Smith, AIF (or POA) Chris Jones, by Jane Smith as his Attorney-in-Fact (or POA)	Chris Jones Chris Jones by: Jane Smith, Attorney-in-Fact
Jane Smith, Attorney in Fact for Chris Jones Chris Jones by Jane Smith as his Attorney-in-Fact (or POA)	
Jane Smith, AIF (or POA) Chris Jones	
Chris Jones by Jane Smith <sup>2</sup> Chris Jones, by Jane Smith as his Attorney-in-Fact (or POA)	
Jane Smith <sup>2</sup> Chris Jones, by Jane Smith as his Attorney-in-Fact (or POA)	

2. While it is not always required to reflect AIF or POA on the signature line, it is strongly preferred.

### PRESENT ADDRESS

The borrower's present address must be within the U.S. territories, or APO military addresses located within the U.S.

### PRIVATE TRANSFER FEE COVENANTS

Flagstar Bank will not purchase any loans where the property is encumbered by a Private Transfer Fee (PTF). If the purchase agreement indicates there is a PTF or if Schedule B of the title commitment has a transfer fee, the loan must be denied.

### PRODUCT DESCRIPTIONS AND RATE SHEETS

Please access our [Wholesale website](#) for the most current product descriptions.

### REACTIVATING DENIED AND WITHDRAWN LOANS

If a loan is *Denied* or *Withdrawn* and needs to be resubmitted for review, we encourage you to upload the condition(s) that support the loan's approval to reactivate the existing loan instead of restarting with a new loan registration. Doing so will speed up the loan process and will help preserve your relationship with Flagstar by protecting your lock, AUS and underwriting fallout percentages.

Conditions on a loan in process take priority over conditions on loans that are in a *Loan Not Underwritten*, *Denied* or *Withdrawn* status. Turn times on these conditions will be half that of Underwriting new submissions.

### PURCHASE COMMITMENTS

Commitments are non-transferable to any other purchaser, property, etc. Funds are reserved upon registration even if the rate and fees are not locked-in. Once the rate is locked-in, transfers are not acceptable. Any participant who knowingly does not perform or deliver a loan may be restricted from future business with Flagstar Bank.

### SHORT SALE

Purchase transactions must be arms-length. Non-arms-length transactions are not eligible.

### SHORT SALE FEES PAID BY THE BORROWER

Borrowers may pay additional fees or payments in connection with acquiring a property that is a pre-foreclosure or short sale that are typically the responsibility of the seller or another party. Any fees they do not represent a common and customary charge must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction. Examples of additional fees or payments include, but are not limited to, the following:

- Short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees). Note: this fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction;
- Payment to a subordinate lien holder; Note : this fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction. and
- Payment of delinquent taxes or HOA delinquent HOA fees

The following documents will be required:

- Purchase Agreement must disclose all fees and/or payment associated to the short sale that the borrower has agree to pay
- Copy of the Short Sale Approval Letter
- The HUD-1 Settlement Statement must include all short sale fees and payments paid by the borrower

### SUBJECT ADDRESS CHANGE

If the subject property has changes, the existing loan must be withdrawn and a new loan and loan number created. New loan documents must be submitted to underwriting for consideration; documents from the withdrawn file cannot be moved to the new file. For more information concerning changing a property address on a Locked loan, please refer to Loan Registration and Locking a Loan – Broker, Doc. #4101.

### **ASSETS**

All borrowers' funds must be verified. To substantiate that a borrower has sufficient cash deposits and other assets available to complete the mortgage transaction, as well as adequate reserves after closing, the amount in the borrower's depository accounts (checking accounts, savings accounts and retirement accounts) for the two-month period that precedes the date of the loan application and the value of the borrower's other financial investments (stocks, bonds, mutual funds, etc.) as of the date of the loan application must be verified (unless a shorter time period is allowed for loans submitted to Loan Prospector or Desktop Underwriter). Monthly bank statements must be dated within 45 days of application. Quarterly statements must be dated with 90 days of application.

## Conventional Underwriting Guidelines

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The *Request for Verification of Deposit* may be used to verify activity in the borrower's depository accounts. When the borrower authorizes the lender to obtain this information directly from the different depository institutions in which he or she has accounts by signing the Form 1006 or 1006(S), the depository institutions must complete, sign and date the form and return it directly to the lender. The Verification of Deposit should not be handled by the borrower. Rather than requiring the borrower to sign multiple verification forms, the lender may have the borrower sign a borrower's signature authorization form.

### GIFTS

A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements. Gifts are not allowed for investment property transactions.

### ACCEPTABLE DONORS

A gift can be provided by:

- Relative, defined as the borrower's spouse, child or other dependent or by any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship <sup>3</sup>
- Fiancé, fiancée or domestic partner \*
  - Domestic Partner: An unrelated individual who shares a committed relationship with the primary wage earner, currently resides in the same household as the primary wage earner and intends to occupy the security property with the primary wage earner.

3. The donor may not be or have any affiliation with, the builder, the developer, the real estate agent or any other interested party to the transaction.

### DOCUMENTATION REQUIREMENTS

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- Specify the dollar amount of the gift
- Specify the date the funds were transferred
- Include the donor's statement that no repayment is expected
- Indicate the donor's name, address, telephone number and relationship to the borrower
- Identification of the property being purchased (Freddie Mac only)

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he/she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill or a bank statement.

### VERIFYING DONOR AVAILABILITY OF FUNDS AND TRANSFER OF GIFT FUNDS

Documentation must be provided to evidence that the gift has been transferred to the borrower's account. Acceptable documentation includes the following:

- Copy of the donor's cancelled check and the borrower's deposit slip
- Copy of the donor's withdrawal slip and the borrower's deposit slip

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If the transferred occurred with certified funds, a letter from the bank that issued the certified check must be provided stating that the funds came from the donors account. All gifts other than gifts of equity must be transferred prior to closing.

### GIFT OF EQUITY

A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction. A gift of equity is permitted for principal residence purchase transactions. Gifts of Equity are also not allowed by Fannie Mae or Freddie Mac on all investment properties or second home new construction if there is a relationship between buyer and seller/builder due to Non-arms-length transaction restrictions. The acceptable donor and minimum borrower contribution requirements for gifts also applies to gifts of equity.

### **DOCUMENTATION REQUIREMENTS**

The following documents must be retained in the loan file:

- Signed gift letter
- HUD-1 Settlement Statement listing the gift of equity

### DONATIONS FROM ENTITIES

Owner-occupant borrowers may use donated gift or grant funds from acceptable entities to pay or supplement part of the closing costs or part of the financial reserves.

Acceptable entities include churches, municipalities, nonprofit organizations (excluding credit unions) and public agencies.

If funds from a gift/grant program are being used, refer to *Gift/Grant Programs*, [Doc. #5935](#) for details.

### GIFT FUNDS FROM A WEDDING

Gift funds from a wedding are unacceptable when being applied toward the borrower's own 5% down payment. When using wedding gift monies for additional funds over and above the initial borrower 5% down payment, you must document proof of the wedding (copy of the marriage certificate) and the gift funds must be deposited in a timely fashion (within one week of the wedding). Freddie Mac will consider wedding gift funds to be used as borrower's own cash provided documentation is given to confirm the date of the wedding and the deposit(s) into the borrower account(s) are within a reasonable timeframe of the wedding date

### MINIMUM BORROWER CONTRIBUTION REQUIREMENTS

Freddie Mac: If the gift is less than 20% of the sales price, the borrower must contribute his or her own funds equal to at least 5% of the purchase price of the property.

Fannie Mae: The following table describes the minimum borrower contribution requirements for transactions that contain gifts:

## Conventional Underwriting Guidelines

Transactions That Contain Gifts		
LTV, CLTV or HCLTV	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
≤ 80%	1 to 4-Unit principal residence Second home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
> 80%	1-Unit principal residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift. Loans requiring mortgage insurance must follow mortgage insurance company requirements for own funds.
	2 to 4-Unit principal residence Second home High-balance mortgage loans	The borrower must make a 5% minimum borrower contribution (or 3% for MCM) from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs and reserves. See the MyCommunityMortgage program for additional information about MCM minimum borrower contribution and down payment requirements.

### **FANNIE MAE AND FREDDIE MAC EXCEPTIONS**

Borrowers to use gift funds for some or all of the minimum contribution in the following situations:

- Borrowers may pool their funds with gift funds received from one of the following sources:
  - a relative or domestic partner who has lived with the borrower for the last 12 months
  - a fiancé or fiancée, as long as both individuals will use the home being purchased as their principal residence.

When a mortgage has an LTV ratio of 80% or lower (or combined LTV ratio, for mortgages that have subordinate financing), gift funds from an acceptable donor may be used to make the entire down payment.

### **CONTRIBUTIONS BY INTERESTED PARTIES**

Some closing costs and prepaid settlement costs generally are paid by the property purchaser, while other costs are the responsibility of the property seller. When any costs that are normally paid by the property purchaser are paid (indirectly or directly) by someone else, they are considered to be contributions. All contributions may be paid by any interested party to the property sale transaction, although limitations will be imposed on the amount of the contributions. A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction.

### **MAXIMUM CONTRIBUTIONS**

The maximum allowable contributions that interested parties may make for a conventional mortgage are limited to:

- 2% of the lesser of the property's sales price or appraised value for a mortgage secured by an investment property.
- 3% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence or second home, if the loan-to-value ratio (or, if applicable, the combined loan-to-value ratio) is greater than 90%.

## Conventional Underwriting Guidelines

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- 6% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence or second home, if the loan-to-value ratio (or, if applicable, the combined loan-to-value ratio) is in the range from 76 to 90%.
- 9% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence or second home, if the loan-to-value ratio (or, if applicable, the combined loan-to-value ratio) is  $\leq$  75%.

For underwriting purposes, a downward adjustment must be made to the sales price of the property to reflect the amount of any contributions that exceed our limitations. In addition, the cost of any contributions that are in the form of personal property (such as furniture, decorator items, automobiles, club memberships or other "giveaways") always must be deducted from the sales price of the property. The maximum loan-to-value ratio (or combined loan-to-value ratio) must then be calculated based on the lesser of the reduced sales price or the appraised value.

### **INTERESTED PARTY CONTRIBUTIONS**

Interested Party Contributions (IPC) are either a financing concession or a sales concession. A financing concession is a financial contribution from an interested party and provides a benefit to the borrowers in the financing transaction. Financing concessions, described below, that are paid on the borrower's behalf are subject to our IPC limits. Fees and/or closing costs that are typically paid by a seller in accordance with local custom (known as common and customary fees or costs) are not subject to these limits. Financing concessions in excess of our stated limits are considered sales concessions. Sales concessions may also include contributions provided by an interested party that benefit the borrower but are not integral to the financing transaction. All sales concessions must be deducted from the sales price when calculating loan-to-value (LTV) and combined loan-to-value (CLTV) ratios for underwriting and eligibility purposes.

### **FINANCING CONCESSIONS**

IPCs that are payments or credits related to acquiring the property or paying for financing terms including prepaids are considered financing concessions. Financing concessions in excess of our stated limits (see next section) are considered sales concessions. Financing concessions include, but are not limited to:

- Origination fees
- Discount points
- Commitment fees
- Appraisal costs
- Transfer taxes
- Stamps
- Attorney fees
- Survey charges
- Title insurance premiums or charges
- Real estate tax service fees
- Funds to subsidize a temporary or permanent interest rate buy-down
- Prepaid items such as:
  - Interest charges (limited to no more than 30 days of interest)
  - Real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment)
  - Hazard insurance premiums (limited to no more than 14 months)
  - Initial and/or renewal mortgage insurance premiums and any escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.

- HOA fees for up to 12 months.

### **SALES CONCESSIONS**

IPCs that take the form of non-realty items such as cash, furniture, automobiles, decorator allowances, moving costs or other "giveaways" are considered sales concessions. The value of sales concessions must be deducted from the sales price when calculating the LTV and CLTV ratios for underwriting and eligibility purposes.

### **PAYMENT ABATEMENTS**

Payment abatement is considered to be a financing concession since it is an incentive provided to the borrower by an interested party, in which the interested party provides funds to pay or reimburse a certain number of monthly payments on the borrower's behalf. The monthly payments may cover, in whole or in part, principal, interest, taxes, insurance and other assessments (PITIA). These funds are provided to the lender or a third party to be distributed over the term of the abatement period or credited against the borrower's future obligations.

Loans with payment abatements of any type are not eligible regardless of whether they are disclosed on the HUD-1 Settlement Statement. This prohibition applies to transactions in which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity such, as non-profit down payment assistance program.

The payment of HOA fees is not considered abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

### **UNDISCLOSED SELLER CONTRIBUTIONS**

Some seller contributions, such as moving expenses, payment of various fees on the borrower's behalf, "silent" second mortgages held by the property seller, P&I abatements and other contributions not disclosed on the HUD-1 uniform settlement statement are often given to home buyers outside of loan closing. These undisclosed contributions tend to reduce the effective sales price of a property; therefore, they may compromise the loan-to-value ratio for a mortgage. Consequently, a mortgage with undisclosed seller contributions is not eligible for delivery.

Funds contributed by the lender from premium pricing are not considered to be contributions and may be used toward closing costs only.

Contributions made by an employer or immediate family member need not be included in the above limitations. A contribution made by a family member, however, is considered a gift and is subject to the requirements for gifts. The appraiser must address any allowable closing costs paid by the seller.

There are a number of "down payment assistance," "homeownership programs," etc. organizations that provide funds to borrowers toward the purchase of a new home. Some of these organizations include:

Nehemiah Program, AmeriDream Charity, HART, Responsible Homeownership Program, Family Home Providers, Neighborhood Gold (The Buyers Fund), Partners in Charity, Freedom Outreach, Horizon, AJH, Genesis Down Pmt Assistance Program, DPA Alliance, Futures, Homes For All, Home Down Payment Gift Foundation & National Home Down Payment Gift Funds

For conventional loans, we do not allow funds from these organizations for down-payment and on only a limited level for closing costs and prepaids. Any funds put into a conventional transaction from these

## Conventional Underwriting Guidelines

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organizations must meet the seller concession percent limitation rules. These funds are considered a seller concession. If the LTV is 95%, the maximum seller concession is 3%, the total maximum amount of combined funds from the seller and these organizations COMBINED is 3%. The seller cannot put in 3% and the organizations another 3%, the total combined limit is 3%.

### VERIFICATION OF ASSETS

Monthly bank statements must be dated within 45 days of application. Quarterly statements must be dated with 90 days of application. Verifications of source of funds may be dated up to 120 days before the date of the note. When a verification of deposit (VOD) is provided to document funds, the underwriter will perform an independent verbal verification of the document.

Instead of sending a *Request for Verification of Deposit* to each of the borrower's depositories or account holders, funds available for closing may be verified by obtaining from the borrower a copy of the applicable bank statements or investment portfolio statements that cover activity in the accounts for the most recent 2-month period (or, if account information is reported on a quarterly basis, for the most recent quarter) and, if applicable, copies of the most recent retirement account statement that is available. If the latest bank statement is more than 45 days earlier than the date of the loan application, the borrower must provide a more recent supplemental bank-generated form that shows the account number, balance and date. The statements may be computer-generated forms, including on-line account or portfolio statements that the borrower downloaded through the Internet. Documents that are "faxed" to the lender or that the borrower downloads from the Internet must clearly identify the name of the depository or investment institution and the source of the information. For example, by including that information in the Internet or "fax" banner that is at the top of the document.

- Bank statements or investment portfolio statements must clearly identify the borrower as the account holder and include the account number, the time period covered by the statement, all deposits and withdrawal transactions (for a depository account) or all purchase and sale transactions (for a financial portfolio account) and the ending account balance.
- Retirement account statements must identify the borrower's vested amount and the terms and conditions for loans or the withdrawal of funds.

Documentation, other than a letter, is required for all files wherein a sizable increase has recently been made to cash accounts required to close the loan. For sizable increases, a letter from the borrower is not sufficient. If the increase is from the sale of a car, boat, etc., evidence must be provided that the borrower owned the personal property through an authentic bill of sale, proof of title transfer, documentation the asset is valued at least its sales price and proof of insurance cancellation. Repayment of a personal loan is not normally an acceptable source of funds for any part of the transaction.

### TYPES OF ASSETS

#### ***UNSECURED LOANS***

Unsecured loans are not an acceptable source of funds for down payment or closing costs. However, Fannie Mae will allow for unsecured financing for lock-in, appraisal and credit report fees provided the total does not exceed \$1000 and the debt-to-income ratios are acceptable.

#### ***DEPOSIT ON SALES CONTRACT***

The deposit on the sales contract for the purchase of the subject property is an acceptable source of funds for both the down payment and the closing costs. When the deposit is used to make any portion of the borrower's down payment that must come from his or her own funds, the source of funds for the deposit must be verified. The receipt of the deposit generally should be verified by a photocopy of the borrower's canceled check, although a written statement from the holder of the deposit is acceptable.

The source of funds for the deposit may be verified by either a bank statement or a Request for Verification of Deposit that indicates that the average balance for the past two months was large enough to include the amount of the deposit. If the deposit check has cleared the bank account, the bank statement should cover the period up to (and including) the date the check cleared the bank account. If the earnest money deposit is required for funds to close, verification that the deposit has cleared the account is required.

### **CHECKING AND SAVINGS ACCOUNTS**

Funds held in a checking or a savings account may be used for the down payment, closing costs and financial reserves. Either a Request for Verification of Deposit or the borrower's bank statements for the most recent two months may be used to verify checking and savings accounts. Any indications of borrowed funds—such as a recently opened account, a recently received large deposit or an account balance that is considerably greater than the average balance over the previous few months will be investigated. When there is a recently opened account or a large increase in an existing account, the source of funds must be documented regardless if the funds are required to close the loan. Unverified funds are not acceptable sources for the down payment or closing costs unless they satisfy our requirements for borrowed funds.

### **STOCKS, BONDS AND MUTUAL FUNDS**

Stocks, government bonds and mutual funds are acceptable sources of funds for the down payment, closing costs and financial reserves if their value can be verified. 70% of their verified value may be used as reserves.

- The value of stocks, bonds and mutual funds (net of any margin accounts) may be verified by referencing the most recent monthly or quarterly statement from the depository or investment firm. A photocopy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application, may also be used to document stock ownership and value.
- The value of government bonds should be based on their purchase price unless the redemption value can be documented.
- The value of stock options and non-vested restricted stock may not be used as reserves.

When the borrower uses these assets for the down payment or closing costs, we must verify the borrower's actual receipt of the funds realized from the sale or liquidation in order to verify the net value of the asset at the time of the sale or liquidation.

### **TRUST ACCOUNTS**

Funds disbursed from a borrower's trust account are an acceptable source of the down payment, closing costs and financial reserves if the borrower has immediate access to them. The trust manager or trustee must verify the value of the trust account and to confirm the conditions under which the borrower has access to the funds. The effect, if any is that the withdrawal of funds from the account will have on any trust income that is used in qualifying the borrower for the mortgage must also be documented.

### **TRADE EQUITY**

The property seller may take the borrower's existing property or an asset other than real estate in trade as part of the down payment, as long as the borrower has made a minimum required cash down payment (Freddie Mac does not require a 5% cash payment) from his or her own funds and the equity contribution for the traded property is a true-value consideration that is generally supported by a current, full appraisal. The requirement applies to all transactions that involve property trades, including

those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.

The equity contribution is usually determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade in value agreed to by both parties. However, when the property being traded is a manufactured home, the equity contribution is determined by subtracting the sum of the outstanding loan balance (if any) and any transfer costs from the lesser of the trade-in value of the manufactured home or the sum of the appraised value for the land being traded (if any) and 90% of the retail value for the manufactured home (based on the National Automobile Dealer Association of Manufactured Housing Appraisal Guide).

For real property, we require a search of the land records to verify the ownership of the property and to determine whether there are any existing liens on the property. The property seller **must** provide proof of title transfer and satisfaction of any existing mortgage liens for which the borrower had been liable. The transfer deed **MUST** be recorded.

### **SALE OF PERSONAL ASSETS**

Proceeds received from a sale of personal assets are an acceptable source of funds for the down payment, closing costs and financial reserves as long as the individual purchasing the asset is not a party to either the property sale transaction or the mortgage financing transaction. When the borrower relies on the sale of personal assets as a source of funds, documentation must be obtained to evidence:

1. The ownership of the asset
2. The value of the asset (as determined by an independent and reputable source)
3. The transfer of ownership of the asset with its sale (such as a bill of sale or a statement from the purchaser)
4. The receipt of the proceeds of the sale (such as a deposit slip, bank statement or copy of the purchaser's check).

Depending on the significance of the funds in question, we may accept alternatives to this required documentation, particularly when the proceeds of the sale represent a minor percentage of the borrower's overall financial contribution.

A borrower who sells an automobile can generally provide evidence of ownership (a copy of the title), the value (the "blue book" price), the transfer of ownership (a bill of sale) and receipt of the proceeds (a deposit slip or bank statement). On the other hand, a borrower who says that he or she raised \$1,000 from a yard sale of various personal items may be able to prove that funds were received, but generally will not be able to produce proof of ownership, value and the actual transfer of ownership for each item. Therefore, the lender should not consider this particular sale of assets as part of the borrower's funds that are available for closing.

### **RETIREMENT ACCOUNTS/LIQUIDATION AND REPAYMENT OF A 401K LOAN FOR DOWN-PAYMENT OR RESERVES**

Vested funds from individual retirement accounts (IRA/Koegh accounts) and tax favored retirement savings accounts (401k accounts) may be used as the source of funds for the down payment, closing costs or financial reserves. When funds from these sources are used for the down payment or closing costs, any applicable withdrawal penalties or income tax must be subtracted so that only the "net" withdrawal is counted. To account for withdrawal penalties and estimated taxes, we will include only 60% of the vested amount in its determination of the borrower's available reserves. Proof of liquidation

of retirement funds is required if any of the required funds for closing is coming from a retirement account. **When funds from these sources are used for financial reserves, we do not require that the funds actually be withdrawn from the account(s). However, the mortgage file must contain verification that the borrower can make withdrawals regardless of current employment status. When a retirement account only allows withdrawals in connection with the borrower's employment termination, retirement or death, these funds cannot be considered as effective financial reserves.**

### ***DISASTER RELIEF GRANT OR LOAN***

State and federal agencies (including the Federal Emergency Management Agency) may use grants or loans to provide immediate housing assistance for individuals who are displaced because they have uninsured property losses resulting from a widespread natural disaster that affected their locality. Disaster relief loans, which are generally administered by the Small Business Administration (SBA), are low-interest-rate loans that may be either secured or unsecured.

We will permit a borrower to use a lump-sum disaster relief grant or loan to satisfy our down payment requirement. The property purchaser does not have to make a minimum cash down payment from his or her own funds in order for the disaster relief grant or loan to be credited toward the down payment.

### ***EMPLOYER ASSISTANCE***

A borrower of a mortgage loan secured by a principal residence may use funds provided by an employer to fund all or part of the down payment or closing costs subject to the minimum borrower contribution requirements below. Employer assistance can also be used for financial reserves for all types of assistance with the exception of unsecured loans (which may only be used for the down payment and closing costs). Employer assistance funds are not allowed on a second home or an investment property.

Funds must come directly from the employer, including through an employer-affiliated credit union.

When employer assistance is extended as a secured second mortgage, the transaction may be structured as a eligible Community Seconds or it must satisfy Fannie Mae's eligibility criteria for mortgages that are subject to subordinate financing.

If the secured second mortgage or unsecured loan does not require regular payments of either principal and interest or interest only, the lender does not need to calculate an equivalent payment for consideration as part of the borrower's monthly debt. If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.

Documentation must be provided to document the following:

- That the program is an established company program, not just an accommodation developed for an individual employee.
- The dollar amount of the employer's assistance.
- An unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
- The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
- That the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

### **ANTICIPATED OR ACTUAL SALES PROCEEDS**

If the borrower's currently owned home is listed for sale, but has not been sold, we may qualify the borrower on the basis of his or her anticipated sales proceeds. The use of "anticipated sales proceeds" does not relieve the responsibility for verifying the actual proceeds received by the borrower. To determine the amount of net proceeds based on a borrower's anticipated equity, use the following formula:

$$\text{Sales Price} - (\text{Sales Costs} + \text{All Liens}) = \text{Estimated Proceeds}$$

If the sales price has not been established, anticipated equity may be calculated by using a different formula:

$$90\% \text{ of Listing Price} - \text{All Liens} = \text{Estimated Proceeds}$$

However, the 10% adjustment factor that is applied to the listing price must be changed depending on market conditions. For example, the costs of selling a property in a slow real estate market may be higher, which reduces the amount of the net proceeds from the sale. In such cases, an adjustment of more than 10% (such as counting only 85% of the listing price) may better reflect market conditions.

The proceeds from the sale of a currently owned home are a common and acceptable source for the down payment and closing costs on a new house. We must obtain the settlement statement on the existing home before or simultaneously with, the settlement on the new home. Generally, a photocopy of the fully executed settlement statement on the sale of the current home, which shows sufficient net cash proceeds to consummate the purchase of the new home, must be used to verify the source of these funds. However, when the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, a copy of the executed buy-out agreement may be used to document the source of funds. A photocopy of a sales contract or a listing agreement may not be used as verification of the proceeds from the sale.

### **BRIDGE OR SWING LOANS**

Bridge (or swing) loans are a form of second mortgage that is collateralized by the borrower's present home, which is usually for sale. By using funds from a bridge loan, the borrower can close on a new house before selling his or her existing house. This type of financing is acceptable if the bridge loan is not cross-collateralized against the new property and the borrower has the ability to carry the payment on the new home, the payment on other obligations, the payment on the current home and the payment on the bridge loan. We do not have a specified limitation on the term of a bridge loan.

### **CREDIT FOR VALUE OF LOT**

When the borrower holds title to the lot on which a property is being constructed (and financed with a construction-to-permanent mortgage), the value of the lot may be credited toward the down payment for the mortgage. The borrower's equity contribution will be the difference between any outstanding liens against the lot and the recognized value of the lot. The recognized value of the lot is determined based on when the borrower acquired the lot:

- If the borrower acquired the lot more than 12 months before the date of the mortgage application - or if the borrower acquired the lot at any time as a gift or inheritance—the value of the lot will be its current appraised value.
- If the borrower acquired the lot 12 or fewer months before the date of the mortgage application, the value of the lot will be the lesser of its sales price or its current appraised value.

If the borrower purchased the lot less than 1-year prior to the date of the mortgage application, the borrower's cash investment must be documented by obtaining a certified copy of the HUD-1 uniform

settlement statement (or a similar settlement statement), a copy of a warranty deed that shows there are no outstanding liens against the property or a copy of a release of any prior lien(s).

### ***RENT CREDIT FOR OPTIONS TO PURCHASE***

The property seller may give the purchaser credit toward the down payment for a portion of previous rent payments the purchaser made under a documented rental purchase agreement that had a minimum original term of at least 12 months, in an amount up to the difference between the market rent and the actual rent that was paid. (The property appraiser must determine "market" rent.) The purchaser does not have to make a minimum cash down payment from his or her own funds in order for the rental payments to be credited toward the down payment.

A photocopy of the rental/purchase agreement must be provided to assure that we will be able to verify the monthly rental and the specific terms of the lease. Copies of canceled checks or money order receipts to document the rental payments for the last 12 months must also be provided.

### ***BORROWED FUNDS SECURED BY AN ASSET***

Borrowed funds that are secured by an asset represent a return of equity. Because of this, they may be used as a source of funds for the down payment, closing costs and financial reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles or financial assets (such as savings accounts, certificates of deposit, stocks, bonds and 401k accounts). The terms of the secured loan must be documented and verify that the party providing the secured loan is not a party to the sale or financing of the property and confirm that the funds have been transferred to the borrower. Generally, we will consider monthly payments for the loan as debt when qualifying the borrower (and, if the loan does not require monthly payments, the lender generally should calculate an equivalent amount and consider it as debt). However, when the loan is secured by the borrower's financial assets, (i.e. 401k) monthly payments for the loan do not have to be considered as long-term debt when qualifying the borrower. If the same financial asset is also used as part of the borrower's financial reserves, the adequacy of the borrower's reserves must take into consideration the fact that the value of the asset has been reduced by the proceeds from the secured loan (and any related fees).

### ***CASH VALUE OF LIFE INSURANCE***

The net proceeds from a loan against the cash value (or from the surrender) of a life insurance policy can be used as a source of funds for the down payment, closing costs and financial reserves. Documentation must be obtained from the insurance company to verify the specific terms of the loan against the cash value of the policy or the net surrender value of the policy. To document the borrower's receipt of funds from the insurance company, the lender may rely on either a copy of the check from the insurer or a copy of the payout statement issued by the insurer.

Payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered as long-term debt when qualifying the borrower if any penalty for failure to repay the loan is limited to the surrender of the policy. However, any additional obligation must be factored into the total debt-to-income ratio or subtracted from the borrower's financial reserves.

### ***CREDIT CARD FINANCING***

Some borrowers prefer to use a credit card to pay for certain costs that must be paid early in the application process (such as those for "lock-in" fees, credit reports or appraisal reports). Since these charges do not represent extraordinary amounts (and credit card debt is considered in the borrower's total monthly debt-to-income ratio), we will permit the costs for application "lock-in" fees to be charged to the borrower's credit card—as long as the total amount of such charges does not exceed 2% of the mortgage amount. The actual cost of a credit report or an appraisal, up to \$500, can also be charged to

the credit card (and does not have to be considered in the 1% limitation). When verifying the funds available for closing for a borrower who paid for these application charges with a credit card, a lender should confirm that the borrower has sufficient funds to cover these charges (as well as other closing costs that he or she will be paying). However, we do not require the borrower to actually pay off these charges at closing.

### **INDIVIDUAL DEVELOPMENT ACCOUNTS**

Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home. Such accounts are referred to as "individual development accounts." Funds that the borrower deposited into an individual development account may be used for either the down payment or closing costs. In some cases, "matching" funds deposited by a nonprofit agency may also be used for some or all of the borrower's down payment and closing costs (including prepaid items):

- If the nonprofit agency requires repayment of the "matching" funds, defers (or forgives) the repayment or files a lien against the property, the ratio of the agency's "matching" funds to the borrower's deposits may be 3:1 or less. The borrower may use the "matching" funds as a gift or grant to supplement the down payment that the borrower makes using his or her own funds (as needed to satisfy our minimum down payment requirement). In this instance, the funds for the borrower's portion of the down payment can come entirely from the funds the borrower deposited into the individual development account or may be supplemented by other funds the borrower has on hand.
- If the nonprofit agency does not require repayment of the "matching" funds (and does not file a lien against the property), the ratio of the agency's "matching" funds to the borrower's deposits may be 4:1 or less. The borrower may use the "matching" funds to make a cash payment for some or all of the down payment. (The funds may also be used to pay closing costs, including prepaid items.)

Documentation must be provided that describes the nonprofit agency's individual development account program to verify the rate at which the agency "matches" the borrower's deposits into the account and determine that the borrower has satisfied any vesting requirements of the program. Documentation must show that the borrower has made regular payments into the account and that the agency made regular deposits of the matching funds into the account.

### **POOLED SAVINGS (COMMUNITY SAVINGS FUNDS)**

Some communities establish pooled savings arrangements (which may be called community savings funds) to give individuals who customarily use cash for their expenses and do not keep their savings in depository institutions a disciplined way of accumulating funds. Funds from a community savings account or any other type of pooled savings may be used for the down payment if the borrower can provide documentation to evidence his or her regular participation in contributing to the savings fund. Acceptable documentation includes confirmation from the party managing the pooled savings fund, as well as appropriate account information for the borrower's contributions.

The borrower's obligation to continue making on-going contributions under the pooled savings arrangement should be considered as part of his or her total debt when calculating the debt-to-income ratio.

### **MORTGAGE REVENUE BOND PREMIUM PROCEEDS**

We do not permit a lender to contribute to the borrower's down payment for a community lending mortgage or a Flexible 97 or Flexible 100 mortgage in exchange for charging the borrower a higher interest rate. Although the use of premium proceeds from a mortgage revenue bond will also result in a

borrower's paying a higher interest rate, the interest rate for the bond and the premium available to each borrower are established by the housing finance agency (the issuer of the bond), not by the lender that originates the mortgage. In view of this, we permit the premium proceeds from a mortgage revenue bond to be used to fund a portion of the down payment for a community lending mortgage (as long as the borrower satisfies any requirement we otherwise impose on the amount of the down payment that must come from the borrower's own funds), to provide the down payment assistance we typically allow in connection with a Community Seconds transaction (unless the first mortgage component is a Flexible 97 or Flexible 100 mortgage) or to fund a community lending borrower's closing costs (including prepaid items).

Documentation from the housing finance agency that issued the bond, which shows not only the interest rate for the bond, but also the premiums available to borrowers must be provided.

### **PERSONAL UNSECURED LOANS**

Generally, personal unsecured loans are not an acceptable source of funds for the down payment, closing costs or reserves. Examples of unsecured borrowed funds include signature loans, lines of credit on credit cards and overdraft protection on checking accounts.

### **CASH-ON-HAND**

Generally, cash-on-hand is not an acceptable source of funds for the down payment or closing costs. However, for a community lending mortgage, cash-on-hand may be an acceptable source of funds, if the borrower customarily uses cash for expenses and that usage is consistent with the borrower's credit profile and financial status. In such instances, the credit report or other verifications must reflect limited (or no) use of credit and cannot identify any depository relationship between the borrower and a financial institution. The acceptability of cash-on-hand will be determined on a case-by-case basis, depending upon the community lending product.

### **SECTION 1031 TAX DEFERRED EXCHANGES**

- **Definition:** A "1031 exchange" involves the selling of one real property, giving the proceeds of the sale to an exchange company and eventually taking back those funds for the purpose of purchasing another real property.
- **Eligible Property Types:** A 1031 exchange is only allowed on properties other than primary residences. Primary residences are not eligible. The home being sold cannot be a primary residence nor the newly purchased property. The exchange company will typically not enter into the transaction unless they are certain that the property type is eligible.
- **Benefit:** The benefit is not having to pay capital gains tax on the proceeds of the sale of the first property sale.
- **Exchange Companies:** The following entities are not permitted to act as the exchange company; relatives and controlled business entities or the applicant's realtor, CPA or attorney.
- **Proceeds:** All proceeds from the first property sale do not need to be reinvested. Escrow may be instructed to disburse a portion of the funds to the applicant and the balance to the new title company as cash to close on the new purchase. Disbursement to the applicant at the close of the sale or unused funds at the close of the exchange will not disqualify the exchange. However, any cash received by the applicant can be recognized by the IRS as a gain and taxed accordingly.
- **Required Documentation:** A copy of the exchange documents, showing the borrower(s) as the owner of the funds and showing adequate funds in the exchange escrow required to close.

### **BUSINESS ASSETS**

The borrower must be 100% owner of the business. 2 months statements must be submitted regardless of AUS response. The lowest ending balance of either statement provided will be allowed for funds to close.

### **LARGE DEPOSIT**

When bank statements (typically covering the most recent two months) are used, the lender must obtain the borrower's written explanation and documentation of the source of funds for large deposits, which are defined as a single deposit that exceeds 25% of the total monthly qualifying income for the loan. This is required regardless if funds are needed for reserves or cash to close

Note: If the source of a large deposit is readily identifiable on the account statement, such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed; the lender should obtain additional documentation.

### RESERVES

The following tables provide minimum reserve requirements based on investor and property type.

#### **FANNIE MAE**

##### **Principal Residence**

<b>Reserves (PITIA) in Months</b>	
<b>1 to 4-Unit</b>	<b>Per DU</b>
However, if the borrower also has a: <ul style="list-style-type: none"> <li>• Current Principal Residence – Converting to a Second Home</li> <li>• Current 1 to 4-Unit Principal Residence – Converting to an Investment Property</li> </ul>	If 30% equity or more on the previous principal residence: <ul style="list-style-type: none"> <li>• 2 months PITIA on the subject property, and</li> <li>• 2 months PITIA on previous primary: or</li> </ul> If less than 30% equity on previous principal residence: <ul style="list-style-type: none"> <li>• 6 months on subject property, and</li> <li>• 6 months on previous principal residence</li> </ul>

##### **Second Home**

<b>Reserves (PITIA) in Months</b>		
<b># of Units</b>	<b>Borrower will have 1 to 4 Financed Properties</b>	<b>Borrower will have 5 to 10 Financed Properties</b>
1-Unit	Per DU, and 2 months PITIA on each other financed second home or investment property.	Per DU, and 6 months PITIA on the subject property and 6 months PITIA on each other financed second home or investment property.

### Investment Property

Reserves (PITIA) in Months		
# of Units	Borrower will have 1 to 4 Financed Properties	Borrower will have 5 to 10 Financed Properties
1 to 2-Units	Per DU, and 2 months PITIA on each other financed second home or investment property.	Per DU and 6 months PITIA on the subject property and 6 months PITIA on each other financed second home or investment property.
3 to 4-Units	Per DU, and 2 months PITIA on each other financed second home or investment property.	Per DU, and 6 months PITIA on the subject property and 6 months PITIA on each other financed second home or investment property.

### **FREDDIE MAC**

#### Principal Residence

Reserves (PITIA) in Months	
1-4 Units	Per LP
However, if the borrower also has a: <ul style="list-style-type: none"> <li>• Current Principal Residence – Converting to a Second Home</li> <li>• Current 1 to 4-Unit Principal Residence – Converting to an Investment Property</li> </ul>	If 30% equity or more on the previous principal residence: <ul style="list-style-type: none"> <li>• 2 months PITIA on the subject property, and</li> <li>• 2 months PITIA on previous primary: or</li> </ul> If less than 30% equity on previous principal residence: <ul style="list-style-type: none"> <li>• 6 months on subject property, and</li> <li>• 6 months on previous principal residence</li> </ul>

#### Second Home

Reserves (PITIA) in Months	
# of Units	Borrower will have 1 to 4 Financed Properties
1-Unit	Per LP, and 2 months PITIA on the subject property and 2 months PITIA on each other financed second home and investment property in which the borrower has an ownership interest or on which the Borrower is obligated plus what is required by LP

### Investment Property

Reserves (PITIA) in Months	
# of Units	Borrower will have 1 to 4 Financed Properties
1 to 2-Unit	Per LP, and 6 months PITIA on the subject property and 2 months PITIA on each other financed second home or investment property in which the borrower has an ownership interest or on which the Borrower is obligated plus what is required by LP
3 to 4-Unit	6 months PITIA on the subject property and 2 months PITIA on each other financed second home or investment property in which the borrower has an ownership interest or on which the Borrower is obligated plus what is required by LP

Loan requiring mortgage insurance must follow mortgage insurance company requirements for own funds.

### CREDIT AND LIABILITIES

#### AUTOMATED CREDIT UNDERWRITING

For conforming loans, Flagstar Bank utilizes Fannie Mae's Desktop Underwriter® (DU) and Freddie Mac's Loan Prospector® (LP) automated underwriting systems (AUS). When utilizing Fannie Mae or Freddie Mac's automated underwriting systems, their credit risk system and analysis will generate a credit report and determine the overall acceptability of the borrower's credit history and will grade accordingly. In most instances, Flagstar Bank will adhere to the risk analysis decision made by the automated underwriting system(s). Flagstar Bank reserves the right to decline any loan regardless of AUS response if the loan contains no viable credit. No viable credit would include any combination of recent non medical collections combined with a chronic pattern of heavy late pays, charge-offs, P&L's, bankruptcy, tax liens, judgments, etc. When material error(s) are present on the credit report that negatively affected the risk analysis of the automated underwriting system(s), the borrower's credit must be updated, and acceptable AUS findings must be obtained. All credit reports must be dated within 60 days of underwriting.

#### **CREDIT SCORE REQUIREMENTS**

All borrowers must have at least one valid credit score to be eligible. The credit report(s) must also meet the following trade line requirement:

- 2 trade lines with a minimum 12-month history or
- 1 trade line with a minimum 12-month history and a 12-month housing reference evidenced by cancelled checks.

All reports used to qualify must meet the trade line requirement in total, not individually. The 12-month history requirement does not have to be satisfied with current activity as long as a valid AUS response is obtained.

Mortgage Insurance companies may impose their own restrictions. Flagstar Bank reserves the right to decline any transaction with 10 or greater mortgage inquiries in the last 90 days for risks associated with "excessive credit solicitation".

#### CREDIT INQUIRIES

The report must list all inquiries that were made in the previous 120 days. All applicants with credit inquiries are required to complete the *Undisclosed Debt Acknowledgement, Doc. #3270* (or equivalent) and disclose the nature of all credit inquiries. The number of mortgage inquiries will be taken into consideration and could result in a denial.

#### DISPUTED CREDIT INFORMATION

If a borrower indicates that any significant information in the credit file is inaccurate, such as reported accounts that do not belong to the borrower or derogatory information that is reported in error, the borrower should request the credit reporting company that provided the information to confirm its accuracy. If the credit reporting company confirms that the disputed information is incorrect, the information should be corrected and a new report obtained if the erroneous information significantly affects the underwriting of the file. If there are multiple disputed tradelines or a dispute on a mortgage tradeline, the credit score cannot be used for underwriting.

The applicants may contact the repositories or bureaus if there are disputed issues. The telephone numbers and addresses are as follows:



## Conventional Underwriting Guidelines

Equifax	Experian	Trans Union	Credco	CBC
1600 Peachtree St. NE Atlanta, GA 30309 (800) 685-1111	701 Experian Pkwy Allen, TX 75013 (888) 397-3742	2 Baldwin Place Chester, PA 19022 (800) 888-4213	12395 First American Way Poway, CA 92068 (800) 637-2422	5555 Airport Hwy Toledo, OH 43615 (800) 795-2119

### DISPUTED CREDIT REPORT TRADELINES

#### **FANNIE MAE**

When DU issues a message stating that DU identified a disputed tradeline and that tradeline was not included in the credit risk assessment, the lender must confirm the accuracy of disputed tradelines reported on the borrower's credit report. If it is determine that the disputed tradeline information is accurate, a new credit report with the tradeline no longer reporting as disputed must be obtained. The loan must be resubmitted to DU, and valid AUS response returned.

#### **FREDDIE MAC**

LP will not acknowledge when the credit report reflects disputed tradelines. The lender is required to review the credit report for disputed tradelines and confirm the accuracy of the disputed tradelines. If it is determine that the disputed tradeline information is accurate, a new credit report with the tradeline no longer reporting as disputed must be obtained. The loan must be resubmitted to LP, and valid AUS response returned.

The applicants may contact the repositories or bureaus if there are disputed issues. The telephone numbers and addresses are as follows:

Equifax	Experian	Trans Union	Credco	CBC
1600 Peachtree St. NE Atlanta, GA 30309 (800) 685-1111	701 Experian Pkwy Allen, TX 75013 (888) 397-3742	2 Baldwin Place Chester, PA 19022 (800) 888-4213	12395 First American Way Poway, CA 92068 (800) 637-2422	5555 Airport Hwy Toledo, OH 43615 (800) 795-2119

### EXTENDED FRAUD ALERTS OR ACTIVE MILITARY ALERTS

Applicants with credit reports containing Extended Fraud Alerts or Active Military Alerts will be contacted by a Flagstar employee prior to a commitment letter being issued.

When the credit reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in the public records or obtains other information that indicates the possible existence of undisclosed credit records, the credit reporting agency must interview the borrower(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist.

#### **NON-U.S. CITIZEN BORROWERS**

If a non-U.S. citizen borrower does not have enough tradeline references in the United States to satisfy Fannie Mae requirements, the lender must use credit references from foreign countries to achieve the required number of seasoned credit references.

#### **UNACCEPTABLE USES**

Non-traditional mortgage credit reports are not acceptable in the following situations:

- When the lender is able to obtain a credit score for the borrower despite limited use of credit and that score is acceptable given the overall risk of the mortgage.

- With the exception of MCM, when the borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required. The lender may not establish an acceptable credit profile through the development of a non-traditional mortgage credit report. See B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements (10/30/2009) for additional information about MCM borrowers with low credit scores.
- When the borrower's traditional credit history indicates derogatory references, such as late payments, collection accounts or judgments. Non-traditional mortgage credit report cannot be used as a means to offset derogatory references or enhance a poor credit history with the traditional providers of credit.
- When the borrower has no credit history. Non-traditional mortgage credit reports cannot be used to artificially create a credit history.

### **CREDIT REFERENCES – MY COMMUNITY MORTGAGE ONLY**

#### **Types of Credit (Tiers I, II and III)**

The types of credit that can be used to develop a non-traditional mortgage credit report are categorized into three different tiers, which are described in the table below.

The consumer reporting agency should attempt to obtain a 12-month payment history for enough Tier I credit references to develop a credit report that covers at least four sources of credit from either Tier I credit providers by themselves or a combination of Tier I credit providers and sources identified in the borrower's traditional credit report. In all cases, at least one source of non-traditional credit must be housing related. All credit references must be included, not just those that reflect acceptable performance.

If fewer than four sources of credit have been identified at this point, the agency must contact Tier II and Tier III sources for credit until a non-traditional mortgage credit report is developed that includes a credit history using 4 to 6 sources of credit, regardless of positive or negative comments.

- Tier I Credit
  - Housing related source. Lenders must obtain at least one housing related source for a non-traditional credit history. The credit agency must specify in the report whether verification was obtained from a professional management company or from an individual landlord. If the reference is from an individual landlord, cancelled checks must be provided.
  - Utilities, if the utilities are not included in the rental housing payment. Utilities include electricity, gas, water and payments for telephone and cable television service.
- Tier II Credit
  - Medical insurance coverage (excluding payroll deductions),
  - Automobile insurance,
  - Life insurance policies (excluding payroll deductions) and
  - Payments for household or renter's insurance.
- Tier III Credit
  - Payments to local stores, such as department stores, furniture stores, appliance stores, specialty stores, etc.
  - Rental payments related to durable goods, such as automobiles
  - Payment of medical bills
  - Payment of school tuition
  - Payments for child care
  - A loan obtained from an individual. The repayment terms must be documented in a written agreement and the borrower must provide copies of canceled checks to indicate the payments are of a continuing nature.

Loans requiring mortgage insurance may be subject to additional requirements of the Mortgage Insurance provider.

### CREDIT HISTORY

#### **VERIFICATION OF MORTGAGE OR RENT (VOM/VOR)**

Mortgage history verification is required for all mortgages not reporting on the credit report. All private non construction mortgages must be seasoned for 12 months to be eligible. The history must be documented by providing cancelled checks. All mortgage tradelines must be updated within 60 days of application. Rental history must be documented, when required, with 12 months cancelled checks if not provided by a professional management company.

#### **MORTGAGE DELINQUENCY**

DU and LP apply the following guidelines to the processing of loans with mortgage delinquencies:

- If any borrower's credit report contains a mortgage tradeline that is  $\geq 60$  days past-due when the account was last reported by the creditor and the account was reported within the 12 months prior to the credit report date, the loan will receive a *Refer with Caution/IV* recommendation and will be ineligible for delivery.
- If an account is reported on the credit report as a non-mortgage tradeline and yet the account is listed on the loan application as a mortgage, DU will analyze the credit history of the tradeline as a mortgage.
- For example, if the credit report identifies an account as a revolving account and the account is listed as a HELOC on the loan application, DU will evaluate the credit history of the account as a mortgage. Any late payments in the credit report will be treated by DU as delinquent mortgage payments.
- If there is a mortgage that is disclosed on the loan application but not reported on the credit report, DU will issue a message requiring the lender to confirm that the account is not two or more payments past-due as of the date of the application and that it has not been past-due by 2 or more payments in the last 12 months. If the lender determines that the borrower does have a mortgage that is past-due by two or more payments or has been past-due by two or more payments in the last 12 months, then the loan is not eligible for delivery to Fannie Mae.
- Borrowers may not bring past-due mortgage accounts current prior to closing in order to circumvent Fannie Mae's guideline regarding past-due mortgages. However, the lender may apply some discretion with regard to the application of this policy if it determines and documents that the past-due account status was not the fault of the borrower. For example, if the servicer misapplied or lost the borrower's payment.
- Loan casefiles will receive an Ineligible recommendation due to excessive prior mortgage delinquency if the borrower has a mortgage tradeline on his or her credit report that has one or more 60, 90, 120 or 150-day delinquency reported within the 12 months prior to the credit report date.

The above policies will apply to all mortgage tradelines, including first liens, second liens, home improvement loans, HELOCs and Manufacture Home transactions.

#### **PRIOR BANKRUPTCY**

DU and LP apply the following guidelines:

- If a bankruptcy was filed within the 48-month period prior to the credit report date, the loan will receive a *Refer with Caution/IV* and will be ineligible for delivery to Fannie Mae.

- If the date filed is unknown but it appears that the bankruptcy was discharged within 48 months, then the lender must confirm that the bankruptcy was not filed within the most recent 48-month period.
- If a bankruptcy was filed more than 48 months before the credit report date, the lender must confirm that the bankruptcy was discharged at the time of the loan application. This applies to all recommendations.
- DU will ignore tradeline accounts that are reported with a bankruptcy status code or manner of payment/MOP code of "7" if there is at least one bankruptcy reported in a public record. In this scenario, DU assumes the date filed and the date discharged in the public record are more accurate than the dates in the tradeline; i.e., specific filed and discharged dates do not exist in the tradeline.
- If the bankruptcy is not reported in a public record, but a tradeline is reported with a bankruptcy status code, the lender will need to verify the actual filed and discharged dates to determine that the bankruptcy meets the DU 48-month guideline.

The following waiting period requirements apply:

### FNMA

Significant Derogatory Event	Recovery Time Periods
Chapter 7	48 months from the discharge or dismissal date
Chapter 13	24 months from discharge date or 48 months from dismissal date

### FHLMC

For Accept Mortgages and A-minus Mortgages, the significance of the derogatory information has already been considered by Loan Prospector and the Borrower's credit reputation has been deemed acceptable. However, regardless of the Risk Classification received from Loan Prospector, if evidence of a bankruptcy is disclosed on a credit report or contained elsewhere in the Mortgage file, the following recovery time periods and additional requirements must be met:

The Mortgage file must contain all of the following documentation:

- A written statement from the Borrower attributing the cause of the financial difficulties to outside factors beyond the Borrower's control that are not ongoing and are unlikely to recur
- Third-party documentation confirming that the events related by the Borrower in the explanation were an isolated occurrence and significantly reduced the Borrower's income and/or increased expenses and rendered the Borrower unable to repay as agreed
- An underwriting analysis on Form 1077, Uniform Underwriting and Transmittal Summary, or on a separate document in the Mortgage file, relating the Borrower's explanation to the Mortgage file documentation and leading to a reasonable conclusion that:
  - The events causing the financial difficulties were beyond the Borrower's control, are not ongoing and are unlikely to recur; and
  - The Borrower has reestablished an acceptable credit reputation
- Evidence on the credit report and other documentation in the Mortgage file of the length of time since completion of the significant derogatory event to the date of application and of completion of the recovery time period requirements below. In addition to the recovery time period requirements, the following additional requirements below must also be met:

Significant Derogatory Event	Recovery Time Periods for Reestablishment of Credit with Extenuating Circumstances	Additional Requirements
Bankruptcy (all bankruptcy actions)	24 months from the discharge or dismissal date	<p>Whenever a Borrower has had a bankruptcy within the last seven years, the Mortgage file must also contain:</p> <ul style="list-style-type: none"> <li>• Copies of the Bankruptcy petition, schedule of debts and discharge or dismissal</li> <li>• Evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid</li> <li>• Any other evidence necessary to support the Seller's determination that the Borrower has reestablished and maintained an acceptable credit reputation</li> </ul>
Significant Derogatory Event	Recovery Time Periods for Reestablishment of Credit with Financial Mismanagement	Additional Requirements
Bankruptcy (other than a Chapter 13 bankruptcy)	48 months from the discharge or dismissal date	<p>Whenever a Borrower has had a bankruptcy within the last seven years, the Mortgage file must also contain:</p> <ul style="list-style-type: none"> <li>• Copies of the Bankruptcy petition, schedule of debts and discharge or dismissal</li> <li>• Evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid</li> </ul> <p>Any other evidence necessary to support the Seller's determination that the Borrower has reestablished and maintained an acceptable credit reputation</p>
Chapter 13 bankruptcy	<p>24 months after the discharge date</p> <p>48 months from the dismissal date</p>	<p>Any other evidence necessary to support the Seller's determination that the Borrower has reestablished and maintained an acceptable credit reputation</p>
Multiple bankruptcy filings in the past seven years	60 months from the most recent discharge or dismissal date	

### **DEED-IN-LIEU OF FORECLOSURE AND PRE-FORECLOSURE SALE**

These transaction types are completed as alternatives to foreclosure. A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. A pre-foreclosure sale or short sale\* (see below) is 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.

### SHORT SALE

A short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed. This applies regardless of the payment history of the mortgage. If any mortgage trade lines reflect they have been settled for less than the full balance, the above wait periods will apply. If the sale of any current properties is occurring during the subject transaction and it appears a short sale may result, a current pay off letter will be requested to confirm a short sale is not occurring. This short sale requirement applies to Fannie Mae and Freddie Mac transactions.

The following waiting period requirements apply:

#### FNMA

Significant Derogatory Event	Recovery Time Periods for Reestablishment of Credit	Additional Requirements
Deed-in-lieu of Foreclosure and Short Sale	24 months	Maximum LTV/CLTV/HCLTV of 80%
	48 months	Maximum LTV/CLTV/HCLTV of 90%
	Seven years	LTV/CLTV/HCLTV greater than 90%

#### FHLMC

For Accept Mortgages and A-minus Mortgages, the significance of the derogatory information has already been considered by Loan Prospector and the Borrower's credit reputation has been deemed acceptable. However, regardless of the Risk Classification received from Loan Prospector, if evidence of a short sale is disclosed on a credit report or contained elsewhere in the Mortgage file, the following recovery time periods and additional requirements must be met:

The Mortgage file must contain all of the following documentation:

- A written statement from the Borrower attributing the cause of the financial difficulties to outside factors beyond the Borrower's control that are not ongoing and are unlikely to recur
- Third-party documentation confirming that the events related by the Borrower in the explanation were an isolated occurrence and significantly reduced the Borrower's income and/or increased expenses and rendered the Borrower unable to repay as agreed
- An underwriting analysis on Form 1077, Uniform Underwriting and Transmittal Summary, or on a separate document in the Mortgage file, relating the Borrower's explanation to the Mortgage file documentation and leading to a reasonable conclusion that:
  - The events causing the financial difficulties were beyond the Borrower's control, are not ongoing and are unlikely to recur; and
  - The Borrower has reestablished an acceptable credit reputation
- Evidence on the credit report and other documentation in the Mortgage file of the length of time since completion of the significant derogatory event to the date of application and of completion of the recovery time period requirements below. In addition to the recovery time period requirements, the following additional requirements below must also be met:

## Conventional Underwriting Guidelines

Significant Derogatory Event	Recovery Time Periods for Reestablishment of Credit with Extenuating Circumstances	Additional Requirements
Deed-in-lieu of Foreclosure	24 months from the execution date	<p>Whenever a Borrower has had a previous deed-in-lieu of foreclosure or a short sale within the last seven years, the Mortgage must either be:</p> <ul style="list-style-type: none"> <li>• A purchase transaction Mortgage secured by a Primary Residence with a maximum loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit TLTV (HTLTV) ratio of the lesser of 90% or the Maximum TV/TLTV/HTLTV ratio for the transaction, or</li> <li>• A rate and term refinance</li> </ul> <p>Additionally, the Mortgage file must contain evidence of the completion of the foreclosure, deed-in-lieu of foreclosure or short sale.</p>
Short sale	24 months from the completion date	

If the borrower is unable to document extenuating circumstances, the following recovery time periods and additional requirements must be met:

Significant Derogatory Event	Recovery Time Periods for Reestablishment of Credit with Financial Mismanagement	Additional Requirements
Deed-in-lieu of Foreclosure	48 months from execution date	<p>Whenever a Borrower has had a previous deed-in-lieu of foreclosure or a short sale within the last seven years, the Mortgage must either be:</p> <ul style="list-style-type: none"> <li>• A purchase transaction Mortgage secured by a Primary Residence with a maximum loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit TLTV (HTLTV) ratio of the lesser of 90% or the Maximum LTV/TLTV/HTLTV ratio for the transaction, or</li> <li>• A rate and term refinance</li> </ul> <p>Additionally, the Mortgage file must contain evidence of the completion of the foreclosure, deed-in-lieu of foreclosure or short sale.</p>
Short Sale	48 months from the completion date	

### FORECLOSURE

- Mortgage accounts, including first liens, second liens, home improvement loans, HELOCs and mobile home loans, will be identified as a foreclosure if there is a current status or manner of payment/MOP code of "8" (foreclosure) or "9" (collection or charge-off).
- If a foreclosure was reported within the 7-year period prior to the credit report date, the loan will receive a *Refer with Caution/IV* and will be ineligible for delivery to Fannie Mae.

## Conventional Underwriting Guidelines

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- If the foreclosure “date filed” and the “date satisfied” are both unknown, but it appears that the foreclosure occurred within the 7-year period prior to the credit report date, the lender must confirm that the foreclosure did not occur within the most recent 7-year period.
- If a foreclosure was reported more than 7 years before the credit report date, the existence of the foreclosure is acceptable, provided there is no additional eligibility criteria applied to the loan.
- A 7-year waiting period is required. This is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower.

Foreclosure laws vary by state and the time it takes to complete the process may vary by state. DU assumes that the date the foreclosure was reported in the tradeline is the date of the foreclosure sale or liquidation. The lender must confirm that all foreclosures are satisfied.

### **JUDGMENTS, GARNISHMENTS AND LIENS**

Open judgments, garnishments and all outstanding liens that are in the Public Records section of the credit report will be identified must be paid off at or prior to closing. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be obtained.

### **PAST-DUE, COLLECTIONS AND CHARGE-OFF ACCOUNTS**

Accounts that are reported as past-due (not reported as collection accounts) must be brought current.

- For 1-Unit, owner-occupied properties, borrowers are not required to pay off outstanding collections or charge-offs, regardless of the amount, provided the collection will not threaten first-lien position.
- For 2 to 4-Unit, owner-occupied and second home properties, collections and charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.

For investment properties, individual accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing.

### **AUTHORIZED USER TRADELINES**

Tradelines designated as authorized user tradelines are taken into consideration as part of the credit risk assessment. However in order to ensure these tradelines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only has a few accounts of his/her own, documentation must be provided to show:

- The relationship of the borrower to the owner of the account
- If the borrower uses the account
- If the borrower makes the payments on the account

If the authorized user tradeline belongs to another borrower on the mortgage loan, no additional investigation is needed.

## MONTHLY DEBT OBLIGATIONS

### **30-DAY CHARGE ACCOUNTS**

The borrower must have assets sufficient to pay-off all 30 day accounts. The only exception is on casefiles where the borrower is receiving cash back at closing, there is not a minimum amount of reserves required for the transaction (e.g. loans secured by second home and investment properties that require the underwriter to manually calculate the minimum required reserves) and the borrower has

a 30-day account on the loan application, DU will subtract any cash back being received by the borrower from the amount of required funds and the 30-day account balance. When the amount of the cash back covers only a portion of the 30-day account balance, DU will only require the amount of the 30-day account balance that is not covered in the cash back to be verified, and as such the underwriter only needs to verify the funds required by DU. When the amount of cash back covers the entire 30-day account balance, DU will not require the amount of the 30-day account balance to be verified. LP will not include the balance in assets to be verified, the balance will need to be manually calculated. It is never acceptable to use 5% of the outstanding balance as a payment in lieu of the asset requirement. In order for AUS to recognize accurately, the liability must be marked as a 30 day charge account and the payment must equal the balance.

### **ALIMONY AND CHILD SUPPORT**

Alimony and child support payments that will continue over 10 months must be considered in the total obligation to income ratio. A Friend of the Court letter and divorce decree are not necessary as long as the payment is included in the ratios, all other credit references on borrower are satisfactory and there is no other documentation in the file to indicate it is delinquent. When the borrower is required to pay alimony, child support or maintenance payments under a divorce decree, separation agreement or any other written legal agreement and those payments must continue to be made for more than 10 months, the lender must consider the payments as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration.

### **BRIDGE (OR SWING) LOAN**

When a borrower obtains a bridge (or swing) loan that is collateralized by his or her present home so that the funds from that loan can be used for closing on a new home before the present home is sold, the borrower has a contingent liability. We will not require that this contingent liability, or the payments on the borrower's existing home be considered as part of the borrower's recurring monthly debt obligations, as long as the lender obtains a copy of the executed sales contract for the property that is security for the bridge loan and the borrower has financial reserves equal to six months of payments for any outstanding liens against the property, in addition to any other reserves that are otherwise required in connection with the borrower's purchase of the new home. If the executed sales contract includes a "financing contingency," the lender must also obtain a copy of the commitment the property purchaser received (and accepted) from the lender that will be providing the financing for that property.

### **BUSINESS DEBT IN BORROWER'S NAME**

When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business. The account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligations if:

- The account in question does not have a history of delinquency
- The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks).
- The cash flow analysis of the business took payment of the obligation into consideration.

The account payment does need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.

- If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense and taxes and insurance, if applicable, equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes or insurance expense, if any, that relates to the account in question.

### **CALCULATING MONTHLY REAL ESTATE TAX PAYMENT – SUBJECT PROPERTY**

The lender must base its calculation of real estate taxes for borrower qualification on no less than the current assessed value (the taxes listed on the title commitment). However, the underwriter may (or must in some circumstances) project the real estate taxes for the following transactions:

- If the transaction is a new construction and the property has not been fully assessed, the taxes may be calculated based on the current tax rate as obtained from the local tax assessor's office or 1.5% of the appraised value.
- For purchases of new and existing properties in California only, property taxes may be calculated using 1.25% of the purchase price.

### **CO-SIGNED LOANS**

When a borrower co-signs for a loan to enable another party (the primary obligor) to obtain credit, but is not the party who is actually repaying the debt, the borrower has a contingent liability. We will not require that this contingent liability be considered as part of the borrower's recurring monthly debt obligations, as long as a verification of history of documented payments on the co-signed debt by the primary obligor and ascertain that there is not a history of delinquent payments for that debt (since this could be an indication that the co-signer might have to assume the obligation at some point in the future). Generally, the primary obligor should have been making payments on the debt for at least 12 months (although shorter payment histories may be considered on a case-by-case basis). If payment by the primary obligor cannot be sufficiently documented, a sufficient payment history has not been established for the debt or the primary obligor has a history of being delinquent in making payments on the debt, we expect the lender to count the contingent liability as part of the borrower's recurring monthly debt obligations. If the party making the payments has no signed obligation to make the payment, it cannot be considered a contingent liability and must be considered as the borrower obligation.

### **COURT-ORDERED ASSIGNMENT OF DEBT**

When a borrower has an outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. (The lender can confirm this information by obtaining evidence of the transfer of ownership (if applicable) and a copy of the applicable pages from the court order.) We will not require that this contingent liability be considered as part of the borrower's recurring monthly debt obligations. Although we do not require the lender to evaluate the payment history for the assigned debt after the effective date of the assignment, the lender should not disregard the borrower's payment history for the debt before its assignment.

### **DEFERRED INSTALLMENT DEBT**

Debts such as student loans and loans in forbearance, must also be included as part of the borrower's recurring monthly debt obligations. If the borrower's credit report does not indicate the monthly payment

that will be payable at the end of the deferment period, a copy of the borrower's payment letter or forbearance agreement should be provided to document the payment amount to use in calculating the borrower's total monthly obligations. Deferred student loans must be included in the qualifying ratios. This includes student loans for which the repayment period has not yet started or payment has been suspended with creditor approval. If a monthly payment is not stated on the credit report, 2% of the outstanding balance will be used as the monthly payment.

### **HOME EQUITY LINES OF CREDIT**

When the mortgage that is being delivered to us also has to a home equity line of credit that provides for a monthly payment of principal and interest or interest only, the payment on the home equity line of credit must be considered as part of the borrower's recurring monthly debt obligations. If the home equity line of credit does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.

### **INSTALLMENT DEBT**

Generally, all installment debt that is not secured by a financial asset, including student loans, automobile loans and home equity loans, should be considered as part of the borrower's recurring monthly debt obligations only if there are more than 10 monthly payments remaining to be paid on the account. However, an installment debt with  $\leq 10$  monthly payments remaining should also be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her credit obligations.

### **LEASE PAYMENTS**

Because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease or the purchase of a new vehicle or house, we require that lease payments always be considered a recurring monthly debt obligation, regardless of the number of months remaining on the lease.

### **LOAN SECURED BY FINANCIAL ASSETS**

When a borrower uses his or her financial assets, life insurance policies, 401k accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc., as security for a loan, the borrower has a contingent liability. We will not require that this contingent liability be considered as part of the borrower's recurring monthly debt obligations, as long as the lender obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy a financial reserve requirement, the value of the asset (the account balance, in most cases) must be reduced by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

### **MORTGAGE ASSUMPTIONS**

When a borrower sells a mortgaged property that he or she owns and the property purchaser assumes the outstanding mortgage, this contingent liability does not have to be counted as part of the long-term debt that is used in determining borrower's ratios as long as a formal assumption agreement (with or without a release of liability) was executed. Evidence must be provided of the transfer of ownership and a copy of the executed assumption agreement. Freddie Mac will not require verification of the property purchaser payment record for the assumed mortgage; Fannie Mae does require that if the borrower is unable to document timely payments during the most recent 12-month-period on the assumed property, the entire PITI payment must be included in the borrower's total debt ratio.

### ***MORTGAGES HELD IN THE NAME OF A LLC***

When the borrower is filing Tax Form 1065 or 1120S along with form 8825 it is not required to verify the mortgage payment history or include the mortgage in the qualifying ratios when the debt is not reporting on the borrower credit report. If the borrower acquired a property during or subsequent to the most recent tax filing year, and it is held in the name of the LLC then it is required to document the mortgage payment history with cancelled checks and include the mortgage in the ratios.

Properties held in the name of a LLC must be included in the total number of financed properties regardless if the mortgage is held in the name of the LLC.

### ***NONREIMBURSED EMPLOYEE EXPENSES***

When a borrower has non-reimbursed business expenses, such as classroom supplies, uniforms, meals, gasoline, automobile insurance and/or automobile taxes, the lender must determine the borrower's recurring monthly debt obligation for such expenses by developing a 24-month average of the expenses, using information from the borrower's IRS Form 1040 including all schedules (Schedule A and IRS Form 2106) and net out any automobile depreciation claimed on IRS Form 2106.

Consequently, when calculating the total debt-to-income ratio, the 24-month average for non-reimbursed expenses should be subtracted from the borrower's stable monthly income, unless such expenses are automobile lease payments or automobile loan payments, in which case they are to be considered part of the borrower's recurring monthly debt obligations. If there is not a 24-month history of such expenses, the lender should develop an annualized monthly average for the expenses and add this calculated amount to the borrower's monthly debt obligations.

### ***PAYMENTS ON REAL ESTATE CO-OWNED***

When the borrower is on title to a property as an owner but is not a signor on the Note or Mortgage he/she must qualify with the taxes and insurance for said property.

### ***PAYMENTS ON REAL ESTATE MORTGAGES***

When the borrower owns mortgaged real estate (other than investment properties), the full mortgage payment (principal, interest, taxes and insurance) that the borrower is obligated to pay is considered as part of the borrower's recurring monthly debt obligations.

#### **Freddie Mac**

The Borrower's previous housing payment and the payments on short term financing secured by the sale of the Borrower's previous residence (commonly known as a bridge loan) may be excluded from the monthly debt payment-to-income ratio when the Mortgage file contains the following documentation:

- The Borrower's executed non-contingent sales contract for the previous residence.
- A lender's commitment to the buyer of the previous residence (if the executed sales contract includes a financing contingency).
- Evidence of reserves of six months' payments covering any liens on the previous residence.
- Executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding Mortgage(s).

### ***PAYOFF OR PAYDOWN OF DEBT FOR QUALIFICATION***

Payoff or pay-down 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. As a rule of thumb:

## Conventional Underwriting Guidelines

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- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments should generally not be included in the borrower's long-term debt.
- If a revolving account is to be paid off and closed, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income ratio. For Fannie Mae a close out letter from the creditor or a credit supplement must be provided prior to closing. For Freddie Mac a close out letter is not required.
- For Fannie Mae if a revolving debt is to be paid off but not closed, a monthly payment on the current outstanding balance will be considered as long-term debt.
- Open 30-day charge accounts must be paid off at or prior to closing if:
  - The borrower is unable to document sufficient assets to cover the unpaid balance or
  - The borrower is unable to document that the charges will be reimbursed by his or her employer.
- Collections, Charge-Offs, Judgments, Garnishments and Liens
- Delinquent credit, including taxes, judgments, charged-off accounts (see below for exceptions), tax liens, mechanics' or material-men's liens and liens that have the potential to affect Fannie Mae's lien position or diminish the borrower's equity, must be paid off at or prior to closing
- Collection accounts or charged-off accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than \$250 or the total balance of all accounts is \$1,000 or less.

Collection accounts or charged-off accounts that exceed the above limits do not have to be paid off at or prior to closing, provided all of the following are documented:

- A strong credit profile
- Meaningful financial reserves
- Evidence that the accounts pose no threat to Fannie Mae's first mortgage lien.
- Evidence that the outstanding accounts are not likely to affect the borrower's equity position.

### ***PROPERTY SETTLEMENT "BUY-OUT."***

When a borrower's interest in a property is "bought-out" by another co-owner of the property (as often happens in a divorce settlement), but the lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability. We will not require that this contingent liability be considered as part of the borrower's recurring monthly debt obligations, as long as documentation can be obtained to confirm the transfer of title to the property.

### ***REVOLVING CHARGE ACCOUNTS***

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense. For Fannie Mae transactions if the debt is to be paid off at closing, the credit line must be closed and cancelled prior to closing. A credit supplement or an acknowledgement letter must be provided from the creditor. If this cannot be provided, the borrower must be qualified with the debt. For Freddie Mac transactions, paid off revolving accounts can be excluded from the qualifying ratios. If the credit report does not show a required minimum payment amount, use an amount equal to 5% of the outstanding balance.

### ELIGIBILITY

#### BORROWERS

Generally, we will purchase mortgages that have been made to natural persons only. We require that title to the property be in the name of the individual borrower(s). However, we will accept an inter vivos revocable trust as an eligible borrower under certain conditions outlined in the [Closing in Trust](#) section. A mortgage is usually not eligible for delivery to us if the borrower is another type of legal entity—such as a corporation, general partnership and limited partnership or real estate syndication.

A borrower is a credit applicant who has an ownership interest in the security property, signs the security instrument and signs the mortgage or deed of trust note (if his or her credit was used for qualifying purposes). If two or more individuals own the property jointly (and are jointly and severally liable for the note), all are considered to be borrowers. However, we often use the term "co-borrower" to describe any borrower other than the first borrower whose name appears on the note.

#### **BORROWER(S) AGE**

The borrower must have reached the age at which the mortgage note can be legally enforced in the jurisdiction in which the property is located. There is no maximum age limit for a borrower. All applicants are evaluated on their ability to meet our underwriting guidelines.

#### **RESIDENT AND IMMIGRATION STATUS**

We will purchase mortgages made to non U.S. citizens who are lawful permanent or nonpermanent residents of the United States under the same terms, mortgage product, transaction type, occupancy status and loan-to-value ratios that are available to United States citizens. Borrowers that are not citizens must currently reside in the United States to be eligible.

Permanent Resident Alien status must be documented with a copy of the borrower(s) green card.

A Non-Permanent Resident Alien must have a valid social security number and evidence of an acceptable visa, an acceptable expired visa along with I-797A with detachable i-94 or an EAD Card. Acceptable Visa includes E Series (E-1, E-2, E-3), H Series (H1-B, H1-C, H-2, H-3, H-4), L Series (L-1A, L-1B, L-2), O Series (O-1) and NATO (TN-1 and TN-2). For NAFTA professionals from Canada and Mexico a VISA or EAD card is not required as long as the borrower(s) has an unexpired passport that is stamped with the h1B status. If a borrower(s) visa will expire within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided. If the EAD will expire within 6 months the borrower must show evidence they have applied for an extension or provide a letter from their employer indicating they will continue to sponsor their employment. Loans requiring MI may have additional restrictions.

A permanent resident alien is an individual who is lawfully accorded the privilege of residing permanently in the United States. The Immigration and Naturalization Service (INS) uses the word "immigrant" to describe these individuals. We also consider another group of individuals—such as refugees and others seeking political asylum, who are immigrating to and seeking permanent residency in, the United States to be permanent resident aliens. The INS has special immigration programs that enable these individuals to seek (and accept) employment while they are in the process of obtaining their permanent resident alien status (which generally will take from two to three years).

A nonpermanent resident alien is an individual who seeks temporary entry to the United States for a specific purpose. The Immigration and Naturalization Service (INS) uses the word "non-immigrant" to

describe these individuals. The INS has several classifications for "non-immigrants"—foreign government officials, visitors for business or pleasure, aliens in transit through the United States, treaty traders and investors, students, international representatives, temporary workers and trainees, representatives of foreign information media, exchange visitors, fiancés or fiancées of U.S. citizens, intra-company transferees and NATO officials. For most classifications, the "non-immigrant" must have a permanent residence abroad and must qualify for the admission classification being sought. A United States credit history shorter than two years is permissible provided it is supplemented with an International credit report that meets Flagstar's credit report standards outlined in the [Credit and Liabilities](#) section. Fannie Mae and Freddie Mac require at least a 2-year credit history documented with a minimum of three traditional tradelines or four non-traditional tradelines. Non-traditional tradelines must be documented with a minimum of 12 months history in the United States. Flagstar must be able to evaluate a borrower's credit history to determine whether the borrower has demonstrated the willingness to meet credit obligations. To verify previous credit histories outside of the United States, lenders may obtain a credit report from a foreign independent credit reporting agency (if available), written verification directly from a bank or an institutional creditor or any other common form of credit references used in the country where the borrower had established credit. Borrowers for whom an adequate credit history (either traditional or non-traditional) cannot be established will not be eligible for a conventional mortgage until such time as the lender is able to obtain verification documenting that an adequate credit history has been established. Credit histories that indicate only newly opened accounts in the United States do not reflect "established" credit, unless there is some documentation to verify the borrower's use of credit in the country in which he or she previously resided. Credit histories can be developed for borrowers who normally do not use credit or who do not have the type of credit that will appear on a credit report by relying on a full factual credit report verifying rental histories from landlords and/or utility payments and telephone bills, etc.

We do not require a borrower to have a social security number. If enough credit information can be obtained to support the borrower's willingness to repay by using a credit report pulled using an ITIN, then the loan may be manually underwritten. In addition, non-traditional credit verification using accounts set up using the ITIN can be utilized. Loan underwritten with credit reports utilizing an ITIN cannot be underwritten with any loan programs requiring a Loan Prospector or Desktop Underwriter response. This is also true for any loans with credit score requirements. These loans must be manually underwritten. Borrowers utilizing ITIN numbers will be required to provide their most current immigration documentation, which will generally include information regarding their asylum or refugee status.

Income and employment history must be documented for a minimal amount of two years and be verifiable through a third disinterested party. Fannie Mae and Freddie Mac require the underwriter to make a reasonable determination that the income will continue for at least three years. Non-Permanent resident aliens who were previously self-employed are ineligible. Flagstar must be able to document a resident alien borrower's earnings and evaluate their stability in accordance with standard underwriting guidelines. There may be several alternatives for documenting employment and income stability. A borrower who is exempt from filing federal income tax returns due to being employed in the United States in an official capacity (i.e. diplomat), may have income verified by obtaining either a Verification of Employment (Form 1005) or a letter from an official of the foreign government which documents the borrower's previous 2 years of earnings, comments on the probability of his or her continued employment and provides the borrower's current earnings statement.

Flagstar must verify that the borrower has sufficient liquid assets to complete the mortgage transaction and to have adequate reserves after closing. Some borrowers may maintain assets outside of the United States or may not invest their assets with financial institutions in the United States. To acknowledge this practice, a lender may consider funds that have been recently deposited in a United States depository institution as an acceptable source of funds, as long as there is evidence that the

funds were transferred from the country from which the borrower immigrated and it can be established that the funds were the borrower's prior to the date of the transfer. The source of all funds for closing should be verified just as they would for a borrower who is a U.S. citizen.

### **GUARANTORS OR CO-SIGNERS**

A guarantor or co-signer is a credit applicant who does not have an ownership interest in the security property, but who signs the mortgage or deed of trust note and thus has joint and several liabilities for the note with the borrower who is the owner of the property. We will consider purchasing mortgages that have a guarantor or co-signer as long as the guarantor's or co-signers liability is not qualified or limited in any manner. However, a party who had an interest in the property sales transaction—such as the property seller, the builder, the real estate broker, etc., is not an eligible co-signer or guarantor. When a guarantor's or co-signers income is used for qualifying purposes, he or she must occupy the property only if the mortgage is a first mortgage that has a loan-to-value ratio over 90%. If the mortgage is a first mortgage that has a loan-to-value ratio of 90% or less or a second mortgage, the guarantor's or co-signers income may be used for qualifying purposes even though he or she does not occupy the property. When a non-occupant guarantor's or co-signers income is used for qualifying purposes, we require the owner-occupant borrower to be able to qualify for the mortgage based on his or her own financial capacity, but using a total debt-to-income ratio of no more than 43% unless allowed by Desktop Underwriter or Loan Prospector. (This is true even if the combined qualifying ratios for the borrower and the guarantor or co-signer are well below our standard qualifying ratio benchmark.)

When the guarantor's, co-signers or non-occupant co-borrower's income is used for qualifying purposes, the occupying borrower(s) must make the first 5% of the down payment from their own funds unless:

- The LTV or CLTV ratio is less than or equal to 80%; or
- The occupying borrower is purchasing a 1-Unit principal residence and meets the requirements to use gifts, donated grant funds or funds received from an employer to pay for some or all of the borrower's minimum contribution.

Loans underwritten in conjunction with LP or DU, you must indicate to the automated underwriting system the non-occupancy of the co-borrower. If correctly identified with a non-occupant co-borrower, LP and DU will determine the acceptability of housing and debt ratios. The maximum LTV for loans with a non-occupant co-borrower underwritten with LP or DU is 95% if an *Accept* or *Approve* response is received.

### **CO-OWNER**

We will allow other individuals to sign just the Mortgage or Deed of Trust and Title, but no other documents when their income and credit are not used to qualify. We will allow a co-signer to sign just the Note and all other documents other than the Mortgage and Title when their income and credit are being used to qualify. To illustrate:

<b>Signor</b>	<b>Mortgage/Title</b>	<b>Note</b>	<b>TIL</b>	<b>Right of Rescission</b>
Co-Signor		x	x	x
Co-Owner	x		x	x

At a minimum, any individual whose income and credit are being used to qualify is required to sign the Note, TIL and Right of Rescission.

### **SPOUSAL PROPERTY RIGHTS (NON-PURCHASING SPOUSE)**

When a married applicant qualifies for a mortgage based on his or her own financial capacity (without any assets or income of his or her spouse being taken into consideration), the spouse does not need to sign the mortgage or deed of trust note. However, we require the spouse to sign the security instrument or any other documentation required to evidence that the spouse is relinquishing all rights to the property, if the spouse's signature is necessary (under applicable state law) to waive any marital property right he or she has by virtue of being the applicant's spouse.

### **NON-ARMS-LENGTH TRANSACTIONS**

Non-Arm's-Length transactions are not allowed for investment property transactions. New construction second home transactions where borrower has any relationship or affiliation with builder /seller are non-arm's length transactions and not eligible. Purchase transactions must be an arms-length transaction if the subject property is involved in a short sale.

### **CLOSING IN TRUST**

Fannie Mae and Freddie Mac now allow loans to close in the name of a Trust. The following guidelines must be met:

- The Trust must be a living revocable trust also known as a "family trust" or an "inter vivos trust."
- Title Company must agree to insure over the trust with no exceptions for the trust or trustees.
- A copy of the trust must be included in the submission package. For FNMA it is acceptable to provide only the pertinent pages within the trust to document the closing in trust requirements have been met.
- The settlor or grantor must be a natural person. The settlor must also be the trustee or one of the co-trustees.
- For Freddie Mac full title to the property must be vested in the trust; there may be no other owners.
- For Fannie Mae loans, it is acceptable for title to the security property to be vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust.
- For Freddie Mac loans, the note is executed by the trustee in an individual capacity and by the trustee on behalf of the inter vivos trust and the security instrument is executed by the trustee on behalf of the inter vivos trust.
- The primary beneficiary of the trust must be the settlor or grantor. If there is more than one settlor or grantor, then there may be more than one primary beneficiary, as long as the income or assets of at least one of the grantors or settlors will be used to qualify for the mortgage and that grantor or settlor will occupy the property and sign the mortgage instruments in his/her individual capacity..
- The trust document must give the trustee or trustees the authority to mortgage trust assets and to incur debt on behalf of the trust and to hold legal title to and manage trust assets.

An attorney's opinion letter stating all above warranties are met will be required on all loans closing in trust. For California properties, a certificate of trust is acceptable in lieu of an attorney's opinion letter. Refer to the *California Trust Certificate*, [Doc. #3951](#).

Texas 50(a)(6) loans may not close in trust. Must close in an individual's name only.

## OCCUPANCY

### **PRINCIPAL RESIDENCE**

A one-to-four family property that is the borrower's primary residence. At least one of the borrowers must occupy the property.

A primary residence is the residential property physically occupied by an owner as the principal home domicile. Among the criteria one should consider in evaluating whether a property is a principal home are the following:

- It is occupied by the owner for the major portion of the-year
- It is in a location relatively convenient to the owner's principal place of employment
- It is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing and similar functions
- It possesses the physical characteristics to accommodate the owner's immediate dependent family.
- The borrower states an intention to occupy the property as a primary residence.

For Fannie Mae transactions the following table describes conditions under which Flagstar Bank considers a residence to be a principal residence even though the borrower will not be occupying the property.

<b>Principal Residence Conditions</b>	
<b>Borrower Types</b>	<b>Requirements for Owner-Occupancy</b>
Parents wanting to provide housing for their physically handicapped or developmentally disabled adult child <sup>4</sup>	If the child is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the parent is considered the owner/occupant.
Children wanting to provide housing for elderly parents <sup>4</sup>	If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the child is considered the owner/occupant. Parents must take title to property being purchased. Must provide 1 year Tax Return for parents to support on fixed income and unable to qualify for housing.

4. This is allowed for purchase or rate and term refinance transactions. Refinance transactions must meet continuity of obligation requirements. Flagstar Bank, at its discretion, may determine that a property is not a primary residence.

### **SECOND HOMES**

Second homes must be 1-Unit properties that are not subject to time-sharing and must meet the following criteria:

- Must be located a reasonable distance away from the borrower's principal residence.
- Must be occupied by the borrower for some portion of the year.
- Is restricted to 1-Unit dwellings.
- Must be suitable for year-round occupancy.
- The borrower must have exclusive control over the property.
- Must not be rental property or a timeshare arrangement.
- Cannot be subject to any agreements that give a management firm control over the occupancy of the property.
- When a property is classified as a second home, rental income may not be used to qualify the borrower.

## Conventional Underwriting Guidelines

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Properties occupied by a party other than the borrower will be considered an investment property.

Applications for owner occupied transaction after closing on a previous owner occupied transaction with Flagstar on a different property within the last 12 months will be ineligible. This guideline will not apply if the previous subject property has been sold or refinanced as a non-owner occupied residence. For owner occupied transactions, the borrower warrants they will occupy the property for at least 12 months.

The determination of the second home status's acceptability may be scrutinized and Flagstar Bank, in its discretion, may determine that a property is not a second home.

### **INVESTMENT PROPERTIES**

A one-to-four family property that the borrower does not occupy.

First time homebuyers (borrowers who have had no previous home ownership) are not eligible for investment property purchases.

While rent information may not be required by AUS when the borrower qualifies without any rental income from the property, the monthly rent information is required when delivering the loan to Fannie Mae and Freddie Mac. The following documents are required:

- Lease agreement or
- Form 1007 or
- Letter from seller, realtor or borrower indicating the estimated market rent
- For refinance transactions, the amount from the REO section of the 1003 can be used

### REFINANCE

#### **RATE-AND-TERM (LIMITED CASH-OUT) REFINANCES**

A limited cash-out refinance transaction enables a borrower to pay off his or her existing mortgage by obtaining a new first mortgage that is secured by the same property. A limited cash-out refinance will include only those loans that involve:

- the pay off of the outstanding principal balance of an existing first mortgage
- the pay off of the outstanding principal balance of any existing subordinate mortgage that was used in whole to acquire the subject property
- the financing of closing costs (including prepaid expenses) if an escrow account is being established and cash back to the borrower in an amount no more than the lesser of 2% of the balance of the new refinance mortgage or \$2,000 (except Texas).

Freddie Mac requires when a mortgage being refinanced is a purchase money transaction, the mortgage being refinanced must have a note date which is at least 120 days prior to the note date of the rate and term refinance.

A short-term refinance mortgage loan that combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage is considered a cash-out transaction. Any refinance of that loan within 6 months will also be considered a cash-out transaction.

Fannie Mae only will consider a "buy-out" as a result of a divorce settlement to be treated as a "limited cash-out refinance" as long as the borrower who will be acquiring sole ownership of the property receives no cash-out of the proceeds from the transaction and is on the mortgage being paid off. Borrowers not on the mortgage will be considered on a case-by-case basis. Freddie Mac only will consider a "buy-out" as a result of a divorce decree to be treated as a "limited cash-out refinance" as

## Conventional Underwriting Guidelines

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long as the borrower who will be acquiring the property receives no cash-out of the proceeds from the transaction, is on the mortgage being paid off and can document the borrower and co-owner jointly occupied the subject as their primary residence for a minimum of twelve months prior to initial loan application. Refer to the [Cash-out refinances](#) section below for requirements. A copy of the final divorce decree mandating this is necessary.

All refinance transactions paying off unreported non-construction mortgages will require 12 months seasoning. The mortgage history must be documented with 12 months cancelled checks. This guideline will not apply to mortgages used in connection with the construction of a subject property.

Properties that have been listed for sale in the past 3 months will be limited to an LTV 70% or less. Properties currently listed for sale are not eligible for refinance.

Transactions that pay off builder financing, refinancing a property from the builder's company to the builder's personal name are not eligible

### RESTRUCTURE MORTGAGE LOANS – FANNIE MAE

A restructured loan is a mortgage loan in which the terms of the original transaction have been changed, resulting in 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 to unsecured.

Mortgage loans that have previously been restructured are not eligible for deliver to Fannie Mae. However, the subsequent refinance of a restructured loan may be delivered to Fannie Mae if one of the following is met:

- The borrower(s) made a minimum of 24 consecutive months of timely mortgage payments based on the terms of the loan after the loan was restructured. After this time, if the borrower chooses to refinance the restructured loan, the new refinance transaction is eligible for sale to
- Fannie Mae if the loan otherwise meets all limited cash-out refinance requirements, as applicable; or
- The new refinance loan is a DU Refi Plus and meets all DU Refi Plus requirements, as applicable.

A refinance of a structured mortgage is not eligible for delivery to Freddie Mac

### **CASH-OUT REFINANCES**

A cash-out refinance transaction enables a borrower to pay off his or her existing mortgage by obtaining a new first mortgage that is secured by the same property (or enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it). The borrower is able to take out much of the equity he or she has in the property and to use the proceeds for any purpose subject to applicable LTV restrictions. The mortgage amount for cash-out refinance transactions may include the unpaid principal balance of the existing first mortgage, closing costs, points, the amount required to satisfy any outstanding subordinate mortgage liens of any age and additional cash that the borrower may use for any purpose.

Note that Fannie Mae and Freddie Mac consider any transaction paying off a junior lien not acquired in whole for the initial purchase transaction to be a cash-out refinance.

## Conventional Underwriting Guidelines

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- A mortgage placed on a property previously owned free and clear by the borrower will be considered a "cash-out" refinance mortgage and RESPA still requires a three-day right of rescission.
- Cash-out transactions, if the property has been listed for sale in the last six months prior to the disbursement date of the new mortgage loan, the LTV/CLTV/HCLTV will be limited to 70%. The subject property cannot be listed for sale at time of application. Proof of listing cancellation and borrower's explanation for listing must be provided to be considered. See product description for further restrictions if applicable.
- The borrower must own the property for at least six months prior to the Note Date to be eligible for a cash-out refinance.
- All refinance transactions paying off unreported non-construction mortgages will require 12 months seasoning. The mortgage history must be documented with 12 months cancelled checks. This guideline will not apply to mortgages used in connection with the construction of a subject property.
- All transactions that involve the payoff of blanket mortgages will be treated as cash-out refinance loans.
- Cash-out transactions on second homes and investment properties are not allowed on properties that have been listed for sale within the past 6 months from the date of application. This applies to 1<sup>st</sup> and 2<sup>nd</sup> liens.
- First-time homebuyers (borrowers who have had no previous home ownership) are not eligible for an investment property purchase transaction.

### **DELAYED FINANCING-FNMA AND FHLMC**

Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met:

- The new loan amount is not more than the actual documented amount of the borrower's initial investment in purchasing the property, plus the financing of closing costs, prepaids, and points. The purchase transaction was an arms-length transaction.
- The purchase transaction is documented by the HUD-1, which confirms that no mortgage financing was used to obtain the subject property.
- The source of funds for the purchase transaction can be documented (bank statements, personal loan documents, HELOC on another property), sourced and seasoned for two months. Any loans used as the source for the purchase transaction will be required to be repaid on the new HUD-1.
- All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.
- The "as is" appraised value is used to determine LTV

Note: The preliminary title search must not reflect any existing liens on the subject property. If the source of funds to acquire the property was an unsecured loan or HELOC (secured by another property), the new HUD-1 must reflect that source being paid off with the proceeds of the new refinance transaction.

Note: funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

### **LAND CONTRACT REFINANCES**

#### **PURCHASE**

When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract (also known as contract or bond for deed) that was executed (signed) within the 12 month proceeding the date of the loan application the transaction will be treated as a purchase.

The LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the purchaser incurs for rehabilitation, renovation, or energy conservation improvements) or the appraised value of the property at the time the new mortgage loan is closed. The expenditures included in the total acquisition cost must be fully documented by the borrower.

#### **RATE AND TERM REFINANCE**

When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract (also known as contract or bond for deed) that was executed (signed) more than 12 months before the date of the loan application the transaction will be treated as a rate and term refinance. 12 months seasoning must be verified with a copy of the signed land contract and 12 months cancelled checks.

The LTV ratio for the mortgage will be determined by dividing the new loan amount by the appraised value of the property at the time the new mortgage loan is closed.

#### **CASH OUT REFINANCE**

Cash out refinances are not eligible when paying off a land contract.

### **CONTINUITY OF OBLIGATION**

Flagstar Bank will require evidence that the borrower(s) are on title prior to loan application. In addition, if a property being refinanced is owned free and clear, we must have satisfactory title work prior to closing evidencing no liens.

For all refinance transactions, a continuity of obligation must exist. If not additional restrictions apply. An acceptable continuity of obligation (assuming that there is an outstanding lien against the property) exists when one of the following conditions is met:

- There is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The existing loan being refinanced and the title have been held in the name of a natural person or an LLC as long as the borrower was the 100% owner of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently inherited or was legally awarded the property (divorce, separation).

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation or there is no outstanding lien against the property, the following restrictions apply. The loans must be underwritten, priced and delivered as a cash-out refinance transaction with these additional limits:

No outstanding liens:

## Conventional Underwriting Guidelines

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- If the property was purchased within the 6 to 12-month period prior to the application date for the new financing, the LTV ratios will be based on the lesser of the original sales price/acquisition cost (documented by the HUD-1 Settlement Statement) or the current appraised value. Standard Selling Guide or DU eligibility will apply, as applicable; or
- If the property was purchased more than 12 months prior to the application date for new financing, the current appraised value may be used to calculate the LTV ratios.

Outstanding liens with no continuity of obligation: If the borrower has been on title for at least 6 months but continuity of obligation does not exist, the maximum LTV ratios will be limited to 50 percent based on the current appraised value.

Transaction not meeting any of the above continuity guides must be underwritten as purchase transactions.

### **RIGHT OF RESCISSION**

With the exception of new construction end loan mortgages wherein the loan applicants have never resided in the subject property, a three-day right of rescission is required to be signed by all occupying loan applicants at closing on an owner occupied refinance. A non-occupant co-borrower should not sign a separate three-day right of rescission; a non-occupant co-borrower does not have the right to rescind.

Marital status has nothing to do with the right of rescission. Rescission applies only to transactions where the consumer already is in title. To apply the rule of when an individual has the right to rescind, one must look at the property title-holders after the closing and if the dwelling is either or all title-holders' principal residence. Only those individuals must sign a three-day right of rescission.

Second home and investment property refinances do not require a three-day right of rescission.

### **OTHER**

If delinquent taxes are shown on title work, the loan must be submitted to underwriting and the loan purchase commitment may be null and void.

For all refinance loans, Underwriting may require the payoff letter to be reviewed prior to closing. For all refinances with a loan-to-value ratio between greater than 80%, Flagstar Bank may require two full payments cash reserve in the bank after refinance costs. Complete the details of transaction section for all refinances. Properties that have been refinanced within the last 12 months can be scrutinized by our underwriter.

To help illustrate when is a loan a rate-and-term refinance and when is it a cash-out refinance, when a junior lien is present (either new or existing), the following table presents common loan scenarios and the appropriate agency treatment:

Common Loan Scenarios	
Scenario	Fannie Mae and Freddie Mac Treatment
Paying off an existing first mortgage with a new first and second, receiving less than \$2000 or 2% cash back on the new first mortgage.	Rate/Term Refinance
Paying off an existing first mortgage and a purchase money second mortgage with a new first mortgage, receiving less than \$2000 or 2% cash back.	Rate/Term Refinance
Paying off an existing first mortgage and a purchase money second with a new first and second, receiving less than \$2000 or 2% cash back on the new first mortgage.	Rate/Term Refinance
Paying off an existing first and non-purchase money second (regardless of seasoning).	Cash-out Refinance
Paying off an existing first mortgage with a new first and second, receiving more than \$2000 or 2% cash back on the new first mortgage.	Cash-out Refinance
Paying off an existing first mortgage and a purchase money second with a new first and second, receiving more than \$2000 or 2% cash back on the new first mortgage.	Cash-out Refinance
Paying off an existing first mortgage and a purchase money second with a new first and second receiving more than \$2000 or 2% cash back on the second mortgage.	Rate/Term Refinance (1 <sup>st</sup> mortgage) Cash-out Refinance (2 <sup>nd</sup> mortgage)
Paying off an existing first mortgage with a new first mortgage and a new second mortgage, receiving less than 2%/\$2000 on the new first mortgage but receiving more than \$2000 or 2% cash back on the new second mortgage.	Rate/Term Refinance (1 <sup>st</sup> mortgage) Cash-out Refinance (2 <sup>nd</sup> mortgage)

### TEXAS REFINANCES

#### Determining the Type of Refinance

All refinance loans in the State of Texas will be reviewed to determine the applicable guidelines under which they must be originated, underwritten and closed. Refinance loan applications will follow one of the procedures outlined below.

- Refinance applications with no new cash-out that do not include the pay-off of subordinate financing: Loan applications that are intended only to refinance an outstanding first mortgage and reasonable and customary closing costs, where no subordinate financing is being paid off, will be underwritten as rate/term refinances. The underwriter must conduct a review of the title commitment at the time of underwriting to verify that no prior lien was a Texas Home Equity or 50(a)(6) lien. If the title commitment shows that a prior lien was originated as a Texas Home Equity lien, and that lien is being paid off from the proceeds of the new first mortgage, the will be re-underwritten as a Texas Home Equity cash-out refinance transaction. If an existing Texas Home Equity or 50(a)(6) lien is being fully subordinated, (only non-(a)(6) loan(s) being paid off) the new loan can be underwritten as a rate/term. (Refinances of Texas Home Equity liens, even if no new cash-out is sought, must also be originated as Texas Home Equity liens, subject to the same disclosure and closing requirements as new Texas Home Equity loans.)

## Conventional Underwriting Guidelines

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- Refinance applications with no new cash-out that do include the pay-off of subordinate financing: Loan applications that are intended to refinance an outstanding first mortgage, reasonable and customary closing costs and the outstanding balance of one or more subordinate liens must submit a preliminary title report with the underwriting submission package to determine if any existing lien is a Texas Home Equity lien and also to determine whether or not the subordinate financing was used to acquire the subject property.

If it is determined that any existing lien is a Texas Home Equity lien and that lien is to be paid off with the new financing, then the new loan will be underwritten as a Texas Home Equity cash-out refinance transaction. (Refinances of Texas Home Equity liens, even if no new cash-out is sought, must also be originated as Texas Home Equity liens subject to the same disclosure and closing requirements as new Texas Home Equity loans.)

If it is determined that any subordinate financing to be paid off with the proceeds of the new loan was not used in total to acquire the subject property, but is also not classified as a Texas Home Equity lien, then the new loan will be treated as a standard Fannie Mae/Freddie Mac cash-out refinance (a non-Texas Home Equity cash-out refinance) if the loan has been submitted under an Agency (Fannie Mae or Freddie Mac) loan product.

### ELIGIBLE HOMESTEADS

Homesteads located in urban areas must be no larger than ten (10) acres and may consist of one (1) or more contiguous lots, together with any improvements thereon. A homestead is considered to be urban if the property is:

- Located within the limits of a municipality or its extraterritorial jurisdiction or a platted subdivision
- Served by police protection, paid or volunteer

### ELIGIBILITY CRITERIA

- Refinance lien, fixed-rate or intermediate term ARM with an initial fixed-rate period of not less than 2 years, fully-amortizing, level payment, conventional mortgage (balloons mortgages and short-term ARMs are not eligible).
- The subject property must be a one-unit primary residence that is the borrower's homestead, as that term is defined under Texas law. The subject property must be residential and not be a farm, ranch or used for any agricultural purposes.
- Eligible property types are attached or detached dwellings, a-unit in a condominium project, a-unit in a Planned Unit Development or a manufactured home (eligible property types may be further restricted by the applicable loan program guidelines). Manufactured homes may be acceptable under Fannie Mae and non-Agency programs provided they meet the requirements outlined in the [Manufactured Homes](#) section and the appraiser must state that the subject is permanently affixed to a foundation assumes the characteristics of site-built housing and is classified as real property under Texas law.
- The maximum LTV/CLTV allowable is 80% (or less based on the applicable loan program guidelines) and all other Fannie Mae, Freddie Mac or non-Agency guidelines must be met.

### APPLICATIONS WITH NEW CASH-OUT

Loan applications intended to refinance existing mortgage indebtedness, if any and to withdraw equity from the property will be underwritten as Texas Home Equity cash-out refinance transactions. Such loans must be originated under the guidelines laid out in Section 50(a)(6), Article XVI, of the Texas Constitution and accompanying regulations.

### EXCEPTION

Fannie Mae considers a "buy-out" as a result of a divorce settlement to be treated as a rate-and-term refinance and allows up to a 90% LTV as long as the borrower who will be acquiring sole ownership of the property receives no cash-out of the proceeds from the transaction. A copy of the final divorce decree mandating this is necessary. Freddie Mac considers such transactions a standard cash-out refinance (non-Texas Home Equity cash-out refinance).

The type of cash-out transaction (Texas Home Equity or non-Texas Home Equity) will determine the eligible loans programs, property types, loan-to-value ratios and the disclosure and closing requirements that must be observed.

Loan applications that are not determined to fall under the requirements of Section 50(a)(6) of the Texas Constitution will follow the same eligibility standards outlined within the applicable loan program guidelines.

### MISCELLANEOUS PROVISIONS

- All borrowers and all owners on title and their respective spouses (regardless of whether or not owners on title or spouses are also borrowers on the loan), must each sign a *Notice Concerning Extensions of Credit*, [Doc. #3640](#) or VMP Form 8032(TX) (as Defined by Section 50(a)(6), Article XVI, Texas Constitution) as a *Prior to Close* condition.
- Non-occupant co-borrowers are not allowed; all borrowers must occupy the subject property as their primary residence.
- Borrowers may only obtain one (1) Texas Home Equity loan in any 12-month period.
- Borrowers may only obtain one (1) Texas Home Equity loan filed against the property.

### COOLING OFF PERIOD

Each Texas Home Equity/50(a)(6) loan requires a "cooling off" period of at least 12 days prior to closing. The "cooling off" period begins from the latter of the application date or the date the last borrower, owner or spouse signs the *Notice Concerning Extensions of Credit*, [Doc. #3640](#) or VMP Form 8032(TX) (as Defined by Section 50(a)(6), Article XVI, Texas Constitution).

### TITLE INSURANCE

At closing, each Texas Home Equity/50(a)(6) loan requires a commitment of title insurance provided on Form T-2 and must include all standard endorsements plus the following:

- Equity Loan Mortgage Endorsement (Form T-42)
- Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1)

### TEXAS HOME EQUITY/50(A)(6) RIGHT OF RESCISSION

In addition to the Federal right of rescission for primary residence refinance transactions, Section 50(a)(6), Article XVI, of the Texas Constitution provides for an additional rescission period under state law for Texas Home Equity/50(a)(6) loans.

The Texas 3-day right of rescission and Federal 3-day right of rescission must run after closing. The Texas 3-day right of rescission refers to calendar days, while the Federal 3-day right of rescission refers to business days. Therefore, compliance with the Federal rescission period satisfies the Texas rescission period.

### **MULTIPLE MORTGAGES TO THE SAME BORROWER**

For Fannie Mae, if a new mortgage is secured by a second home or investment property, the borrower may not own more than ten properties (includes his/her principal residence) that are currently being

financed. This limit applies to any combination of ownership in 1 to 4-Family properties, properties owned by an LLC or non purchasing spouse will be counted toward financed property limitations. Refer to *Fannie Mae Multiple Property Program*, [Doc. #5351](#) for all transaction in which the borrower owns 5-10 financed properties. For FHLMC, if a new mortgage is secured by a second home or investment property, the borrower may not own more than 4 properties (includes his/her principal residence) that are currently being financed. This limit applies to any combination of ownership in 1 to 4-Family properties, properties owned by an LLC or non purchasing spouse will be counted toward financed property limitations. Additionally for Freddie Mac, for borrowers who own more than one financed investment property, the new subject investment property mortgage must be a 15, 20 or 30-year fixed-rate mortgage or a 7/1 or 10/1 ARM only. Also, Freddie Mac requires evidence of rent loss insurance for the subject property if rental income is being used to qualify.

### CONSTRUCTION-TO-PERMANENT FINANCING

Construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence. The borrower must hold title to the lot. The construction must be complete and all liens (mortgages, mechanics' liens, material-men's liens, etc) must be satisfied. The loan must be interfaced with a loan purpose of construction to permanent to Desktop Underwriter. Transactions that represent a single disbursement to a builder/contractor must be treated as a purchase and do not fall under these guidelines. Cash-out refinances are not eligible.

New construction properties are not eligible for a Property Inspection Waiver (PIW).

### **TWO SEPARATE CLOSING TRANSACTIONS - FNMA**

Two separate closing transactions, one closing for the construction phase and another closing for the permanent financing, may be used when an individual borrower obtained interim construction financing to finance the construction of a residence and, in some cases, to finance the purchase of the lot as well and needs to obtain permanent financing on completion of the construction.

The lender that provides the long-term permanent mortgage may be a different lender than the one that provided the interim financing. The lender must underwrite the borrower based on the terms of the permanent mortgage.

A construction-to-permanent financing mortgage may be closed as:

- A limited cash-out refinance transaction

When a refinance transaction is used, the borrower must hold legal title to the lot.

### **LIMITED CASH-OUT**

Loans can only close as a limited cash-out refinance transaction.(They are still considered construction-to-permanent transactions).

When a limited cash-out refinance transaction is used in connection with a lot that the borrower is on title, the LTV ratio is determined by dividing the loan amount of the construction-to-permanent mortgage by the current appraised value for the property (both the lot and the improvements).

The loan file must document the appraiser's certificate of completion and a photograph of the completed property. A clear certificate of occupancy is required.



## Conventional Underwriting Guidelines

### MAXIMUM MORTGAGE AMOUNTS AND MANUAL UNDERWRITING

#### 2013 FNMA/FHLMC CONFORMING LOAN LIMITS

First Mortgage Maximum Allowable Original Loan Amounts				
Number of Units	Contiguous States, District of Columbia and Puerto Rico		Alaska, Guam, Hawaii and the U.S. Virgin Islands	
	General	High-Cost	General	High-Cost
<b>One</b>	\$417,000	\$729,750	\$625,500	\$793,750
<b>Two</b>	\$533,850	\$934,200	\$800,775*	\$1,016,150
<b>Three</b>	\$645,300	\$967,950	\$967,950	\$1,115,800
<b>Four</b>	\$801,950	\$1,202,925	\$1,202,925	\$1,386,650

#### MANUAL UNDERWRITING PARAMETERS

##### Fannie Mae Programs

Maximum Allowable LTV, CLTV, HCLTV Ratios and Minimum Credit Scores for Manually Underwritten Fannie Mae Fixed-rate, ARM and Balloons (Note: Excludes MyCommunityMortgage, HomeStyle Renovation, HARPs, Streamlined Refinance Products and High Balance Mortgages.) Please refer to the product description and MI matrix for additional credit score requirements, LTV and product specific restrictions.

Principal Residence			Maximum DTI ≤36%		Maximum DTI ≤45%	
Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV	Minimum Credit Score/LTV	Minimum Reserves	Minimum Credit Score/LTV	Minimum Reserves
Purchase and Limited Cash-out Refinance	1-Unit	FRM: 95% ARM: 90%	FRM: 680 if > 75% FRM: 620 if ≤ 75% ARM: 680 if > 75% ARM: 640 if ≤ 75%	0	700 if > 75% 640 if ≤ 75%	0
			660 if > 75%	6	FRM: 680 if >75% FRM: 620 if ≤ 75% ARM: 680 if > 75%	2
	2-Units	FRM: 85% ARM: 75%	680 if > 75% 640 if ≤ 75%	6	700 if > 75% 660 if ≤ 75%	6
			660	6	680 if > 75% 640 if ≤ 75%	12
3 to 4-Units	FRM:75% ARM:65%	660	6	680	6	
				660	12	
Cash-out Refinance	1-Unit	FRM: 85% ARM: 75%	680 if >75% 660 if ≤ 75%	0	700 if > 75% 680 if ≤ 75%	0
			660 if > 75% 640 if ≤ 75%	6	680 if > 75% 660 if ≤ 75%	2
	2 to 4-Units	FRM: 75% ARM: 65%	680	6	700 680	6 12



## Conventional Underwriting Guidelines

Second Home			Maximum DTI ≤36%		Maximum DTI ≤45%	
Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV	Minimum Credit Score/LTV	Minimum Reserves	Minimum Credit Score/LTV	Minimum Reserves
Purchase and Limited Cash-Out Refinance	1-Unit	FRM: 90% ARM: 80%	680 if > 75% 640 if ≤ 75%	2	700 if > 75% 660 if ≤ 75%	6
					680 if > 75% 640 if ≤ 75%	12
Cash-Out Refinance	1-Unit	FRM: 75% ARM: 65%	680	2	700	2
					680	12

Investment Property			Maximum DTI ≤36%		Maximum DTI ≤45%	
Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV	Minimum Credit Score/LTV	Minimum Reserves	Minimum Credit Score	Minimum Reserves
Purchase	1-Unit	FRM: 85% ARM: 75%	680 if > 75% 640 if ≤ 75%	6	700 if > 75% 660 if ≤ 75%	6
					680 if > 75% 640 if ≤ 75%	12
	2 to 4-Units	FRM: 75% ARM: 65%	660	6	680 660	6 12
Limited Cash-Out Refinance	1-Unit	FRM: 75% ARM: 65%	660	6	680 660	6 12
	2 to 4-Units	FRM: 75% ARM: 65%	680	6	700 680	6 12
Cash-Out Refinance	1-Unit	FRM: 75% ARM: 65%	700	6	720 700	6 12
					2-Unit	FRM: 70% ARM: 60%

### Freddie Mac Programs

Maximum Allowable LTV, CLTV, HCLTV Ratios and Minimum Credit Scores for Manually Underwritten Freddie Mac Fixed-rate, ARM and Balloons (Note: HARP, Streamlined Refinance Products and High Balance Mortgages.) Please refer to the product description and MI matrix for additional credit score requirements, LTV and product specific restrictions.

Purchase			
Occupancy	Number of Units	Minimum Indicator Score LTV/TLTV/HTLTV ≤75%	Minimum Indicator Score LTV/TLTV/HTLTV >75%
Primary Residence	1-Unit	660	660
Primary Residence	2-Unit	660	660
Primary Residence	3 to 4-Unit	660	660
Second Home	1-Unit	660	720
Investment Property	1-Unit	660	720
Investment Property	2 to 4-Unit	660	Not Eligible



## Conventional Underwriting Guidelines

<b>“No Cash-out” Refinance</b>			
<b>Occupancy</b>	<b>Number of Units</b>	<b>Minimum Indicator Score LTV/TLTV/HTLTV &gt;75%</b>	<b>Minimum Indicator Score LTV/TLTV/HTLTV ≤75%</b>
Primary Residence	1-Unit	660	660
Primary Residence	2-Unit	660	660
Primary Residence	3 to 4-Unit	660	660
Second Home	1-Unit	660	720
Investment Property	1-Unit	660	Not Eligible
Investment Property	2 to 4-Unit	660	Not Eligible
<b>Cash-out Refinance – Not applicable if borrower had previous Foreclosure, Bankruptcy, Short Sale or Deed in Lieu of Foreclosure</b>			
<b>Occupancy</b>	<b>Number of Units</b>	<b>Minimum Indicator Score LTV/TLTV/HTLTV &gt;75%</b>	<b>Minimum Indicator Score LTV/TLTV/HTLTV ≤75%</b>
Primary Residence	1-Unit	680	720
Primary Residence	2 to 4-Units	680	720
Second Home	1-Units	700	720
Investment	1-Unit	700	720
Investment Property	2 to 4-Units	700	Not Eligible

### **FANNIE MAE AND FREDDIE MAC CREDIT SCORE REQUIREMENTS**

All borrowers must have at least one valid credit score to be eligible. The credit report(s) must also meet the following trade line requirement:

- Two trade lines with a minimum 12-month history
- One trade line with a minimum 12-month history and a 12-month housing reference evidenced by cancelled checks.

All reports used to qualify must meet the trade line requirement in total, not individually. Mortgage Insurance companies may impose their own restrictions.

### **FANNIE MAE AND FREDDIE MAC DEBT TO INCOME RATIO REQUIREMENTS**

- Debt to income ratio of 36% for loans with a LTV ratio of 97% or less
- Debt to income ratio of 25%/33% for any non-owner occupied property
- Debt to income ratio of 35%/43% for loans with non-occupant co-borrowers

Manually underwritten loans with a debt to income ratio over 36% will be reviewed with consideration of the compensating factors in the individual file. Ratios cannot exceed 45% in any case.

### **SUBORDINATE FINANCING**

Generally, we will make mortgages that are subject to subordinate financing held by another investor as long as the lien is recorded and clearly subordinate to our mortgage lien. Fannie Mae and Freddie Mac allow subordinate financing on owner occupied second homes and investment properties involving the use of a home equity line of credit. The loan file must disclose subordinate financing repayment terms to the underwriter and the appraiser.

Generally, we can approve first mortgages that are subject to subordinate financing held by another investor as long as the subordinate lien is recorded and will be clearly subordinate to our mortgage lien.

## Conventional Underwriting Guidelines

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When subordinate financing is left in place in connection with a first mortgage refinance transaction or will be new with a first mortgage purchase money transaction, we require the execution and recordation of a subordination agreement.

### **PURCHASE TRANSACTIONS**

For purchase transactions, a copy of the note or 2<sup>nd</sup> lien approval is required to confirm the terms of the subordinate financing.

### **REFINANCE TRANSACTIONS**

For refinance transactions, a copy of the current note and mortgage/deed of trust must be provided. A recorded subordination agreement is required for all loans closing with subordinated financing.

### **ACCEPTABLE SUBORDINATE FINANCING TYPES**

- Variable payment mortgages that comply with the following terms:
  - With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. (For HELOCs, the monthly payment does not have to remain constant.)
  - The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur.
  - If the subordinate financing is from the borrower's employer, financing may be either an unsecured loan or a mortgage and does not have to require regular payments of either principal and interest or interest-only.
- Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
- Mortgage terms that require interest at a market rate. If financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.
- Refer to product guidelines for Community Second and Gift/Grant programs.

### **ELIGIBLE VARIABLE PAYMENT TERMS**

Variable payments for subordinate financing are eligible if the following provisions are met:

- With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. (For HELOCs, the monthly payment does not have to remain constant.)
- The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur (with the exception of employer subordinate financing that has deferred payments).

### **ELIGIBLE REPAYMENT TERMS FOR EMPLOYER SUBORDINATE FINANCING**

If the subordinate financing is from the borrower's employer, it does not have to require regular payments of either principal and interest or interest-only. Employer subordinate financing may be structured in any of the following ways:

- Fully amortizing level monthly payments

- Deferred payments for some period before changing to fully amortizing level payments
- Deferred payments over the entire term or
- Forgiveness of the debt over time

The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily) before the maturity date of the subordinate financing.

### **UNACCEPTABLE SUBORDINATE FINANCING**

- Subordinate financing with "wrap-around" terms that combine the indebtedness of the first mortgage with that of the subordinate mortgage.
- Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments).
- Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments). Subordinate loans with less than five years remaining will be acceptable if the balance owing on subordinate lien is less than 20% of the balance owed on the 1st mortgage or if the borrower has sufficient reserves to pay off subordinate financing.
- Subordinate financing that restricts prepayment (i.e., subordinate liens with prepayment penalties), except for a HELOC, a prepayment penalty up to \$1000.00 is acceptable. Note: When HELOCs or closed-end second mortgages are used that pay for some or all of the borrower's closing costs with terms that allow the lender to recoup the closing costs paid on behalf of the borrower if the borrower pays the HELOC or second mortgage off early, we will not define these recouped fees as a prepayment penalty for the purpose of subordinate financing eligibility. Recouped fees may be deemed a prepayment penalty under state law. Lenders are responsible for compliance with all federal, state and local laws and must consult with their own legal counsel if they have questions about prepayment penalties.
- Community Second liens cannot be subordinated on cash-out transactions for conventional loans.
- ELTAP (Energy Loan Tax Assessment Program) and PACE (Property Assessed Clean Energy) liens.

### **MAXIMUM TOTAL LOAN-TO-VALUE RATIO**

- The total loan-to-value (TLTV) ratio is determined by combining the unpaid principal balances of the first mortgage and all subordinate mortgages and dividing that sum by the property's value (which is the lower of sales price or appraised value).
- Home Equity Line of Credit (HELOC): For mortgages that are subject to subordinate financing under a home equity line of credit, the home equity total loan-to-value (HTLTV) is obtained by dividing the sum of the first lien mortgage amount and the total HELOC credit line limit and any other secondary financing, by the lesser of the purchase price or appraised value. If the credit line must be reduced to quality, documentation must be provided prior to closing.

### **SMALL BUSINESS ADMINISTRATION LOANS (SBA)**

For Fannie Mae and Freddie Mac the SBA must be included in the TLTV and borrower must qualify with the payment.



## Conventional Underwriting Guidelines

### **DEFINING REFINANCE TRANSACTIONS BASED ON SUBORDINATE LIEN PAYOFF**

The table below provides the underwriting considerations related to subordinate financing under refinance transactions.

<b>Underwriting Considerations</b>		
<b>Refinance transaction includes payoff of the first lien and</b>	<b>Then lenders must underwrite the transaction as a</b>	<b>Comments</b>
The payoff of a purchase money second with no cash-out	Limited cash-out refinance	N/A
The payoff of a non-purchase money second, regardless of whether additional cash-out is taken	Cash-out refinance	N/A
The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property and the borrower is not taking cash-out except to the extent permitted for a limited cash-out refinance transaction	Limited cash-out refinance	The subordinate financing must be factored into the comprehensive risk assessment based on the CLTV, HCLTV and total debt-to-income ratio.
The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property and the borrower is taking cash-out	Cash-out refinance	The subordinate lien must be re-subordinated to the new first mortgage loan.

### **PRIVATE MORTGAGE INSURANCE**

All private mortgage insurance should be ordered in Flagstar Bank's name if table-funded. MI underwriting services are available only through Essent, MGIC and Genworth. Delegated customers should refer to the current welcome package located on our [Wholesale website](#) for terms and conditions for loans with mortgage insurance.

It is the responsibility of the loan originator to properly disclose all fees and charges to all applicants and to ultimately ensure that the lowest premium insurance is being offered. Flagstar Bank is not responsible for ensuring that the borrower is disclosed and that the loan closes with the correct mortgage insurance coverage and premiums. If a loan closes with insufficient mortgage insurance coverage, regardless if Flagstar Bank ordered the certificate, the originating broker or correspondent will be responsible for purchasing additional mortgage insurance coverage to satisfy the investor's coverage requirement.

Private mortgage insurance is required for all loans in excess of 80% LTV. The LTV and CLTV will be determined by the lesser of the appraised value or sales price. Refer to the [New York Properties](#) section for a deviation to this guideline regarding certain loans originated in New York.

Anytime a loan has an increase in the interest rate, the mortgage insurance company must approve the increase prior to closing and the file returned to the underwriter to be reviewed. MI must be disclosed on the TIL and First Payment Letter and HUD.

### **STANDARD MORTGAGE INSURANCE**

Refer to Flagstar Bank product descriptions for the standard required coverage levels for mortgage insurance for each individual product.

### **MONTHLY MORTGAGE INSURANCE**

Mortgage insurance companies offer a monthly MI program. This program offers the same coverage as yearly premiums, but is billed monthly instead of prepaid annually. Flagstar Bank now orders all mortgage insurance as a Zero Initial Premium (ZIP/ZOMP), unless otherwise requested. This allows the borrower to pay zero up-front mortgage insurance at the time of closing. The mortgage insurance must still be disclosed on both the Truth-in-Lending and First Payment Letter.

### **FINANCED SINGLE PREMIUM MORTGAGE INSURANCE**

Mortgage Insurance guidelines apply to the LTV; MI pricing is based on the base loan amount. Program eligibility and mortgage pricing are determined based on the gross loan amount (TLTV which includes the SFMI). Single Financed Mortgage Insurance is only available with Essent, MGIC & Genworth. Refer to *Single Financed MI Matrix*, [Doc. #5010](#) for additional TLTV parameters.

Fannie Mae will allow loans with financed mortgage insurance with the following guidelines being met:

- The mortgage amount after adding the financed MI premium cannot exceed the maximum mortgage amount limits set forth in the [Maximum Mortgage Amounts and Manual Underwriting](#) section.
- The borrower elects to have a single mortgage insurance premium financed into the loan amount.
- The subject property must be owner occupied single family only.
- The level of required MI coverage may be based on the LTV of the mortgage before the financed MI premium is added, as long as the lender obtains a Financed MI Premium Endorsement to the mortgage insurance policy that states that the MI company will adjust its claim calculation, if needed, so that it will be based on any higher level of coverage that would be required for the LTV that applies after addition of the financed MI premium. If such an endorsement is unattainable, then the level of MI coverage must be based on the LTV of the mortgage after the financed premium is added.
- For all 90% LTV financed single premium mortgages that include interested party contributions greater than 3%, the following documentation will be required:
  - The appraiser must state that the interested party contributions on the property being appraised are not more than contributions generally paid by interested parties in a similar transaction in that market.
  - The appraiser must note and take into consideration such contributions in arriving at the appraised value.

Freddie Mac will allow loans with financed mortgage insurance with the following guidelines being met:

- Loans receiving an *Accept* response:
  - The base LTV must not exceed the lesser of 95 percent or the maximum allowable program LTV.
  - The total LTV must not exceed 95 percent.
  - 1-Unit primary residence only.
  - The mortgage insurance premium must be paid with a single premium payment.

Fannie Mae allows the seller to pay for the one-time up-front mortgage insurance premium or the first-year premium for a renewable mortgage insurance policy. This amount must be included and not exceed the maximum allowable financing concession limit. Fannie Mae and Freddie Mac allow the initial mortgage premium or the one-time single premium to be paid (not financed) by the lender, the

borrower's employer or the property seller. If the lender or the seller pays the mortgage insurance, the contribution must be included in the calculation of the total value of the financing concessions. All subsequent renewal premiums must be paid by the borrower.

### **LENDER PAID MORTGAGE INSURANCE**

Refer to Product Descriptions for details

- LPMI is not eligible on 2-Unit properties
- MI Certificate must be ordered at the time interest rate is locked to insure correct pricing
- If loan is locked prior to obtaining the LPMI certificate, loan may be subject to re-pricing

### **NEW YORK PROPERTIES**

The handling of mortgage insurance coverage for purchase transactions with a property address in the state of New York are handled differently than the rest of the country. The rule for loans with a property address in the state of New York only is as follows:

When determining the LTV for the purposes of adequate mortgage insurance coverage, this LTV should be based upon loan amount divided by appraised value, regardless if the sales price is less than the appraised value.

Example:

Loan Amount	\$80,000
Sales Price	\$90,000
Appraised Value	\$100,000

For the state of New York, the MI coverage LTV is determined by the loan amount divided by the appraised value only, not the sales price. In this case, the MI LTV would be 80% and thus not require MI Fannie Mae and Freddie Mac, however, follow the standard formula for product and guideline compliance and would consider this loan an 89% LTV (in terms of product eligibility), but know to comply with New York law and disallow MI.

#### **Exception**

If in the above scenario the appraised value would have been \$99,000, making the MI LTV 80.8%, because the MI LTV is greater than 80%, you would now follow the standard approach -- determine MI coverage by dividing the loan amount by the sales price and arriving at an 89% LTV. If this example New York loan were a 30-year fixed-rate loan, standard coverage guidelines would indicate that 25% mortgage insurance coverage would be required.

### **REDUCED AND LOW-COST MORTGAGE INSURANCE**

Not available

### **IN FORCE**

Fannie Mae and Freddie Mac require mortgage insurance to be in place for a minimum of 24 months. However, Fannie Mae, owner occupied cash-out refinance loans which require mortgage insurance coverage have a seven-year continuous mortgage insurance requirement.

### **INELIGIBLE TRANSACTIONS**

- Any LTV above 97%

- FICOs below 620
- Loans with potential negative amortization
- Interest-only loans
- Investment property transactions
- Manufactured homes
- 3 to 4-Unit properties
- Refinances with reduced payoffs (short refinance/payoff)
- Borrower(s) using an ITIN
- LPMI on 2-unit properties
- Property Inspection Waiver (PIW)

Always check the [MI Company Parameter Matrix](#) for details and restrictions.

### **INCOME AND EMPLOYMENT**

The underwriter must determine the probable stability and continuance of employment. Borrowers who are in a line of work in which advancement is possible because of a continuing demand for that kind of service and who have demonstrated an ability to maintain full employment and advance in standing should receive favorable consideration. The potential for future income can have a positive influence for borrowers who have recently entered the job market. The underwriter will also consider the borrower's history of having worked a certain number of hours in a given time period (i.e. 40 hours per week). Recent increases in number of hours worked will generally not be considered acceptable.

Borrowers should be considered favorably if adequate future income can be anticipated because their education and training will expand their job opportunities. A borrower who changes jobs frequently to advance within the same line of work and is successful in that work should receive favorable consideration. On the other hand, job-hopping without advancement or from one line of work to another, may indicate an inability to master a job and could lead to unstable income. Borrowers with questionable employment histories must have offsetting financial strengths to be considered for maximum financing. In addition, negative comments received from an employer could be reason to decline an application. However, before doing so, the underwriter must perform a detailed investigation of the comments and arrive at a precise reason to support its underwriting decision.

#### **EMPLOYMENT STABILITY**

A 2-year employment history must be reflected on the application. The purpose of reviewing employment history is to assure that the borrower has a history of receiving stable income from employment (and other sources) and that there is reasonable expectation that the income will continue to be received in the foreseeable future. The income should be reasonable based on the source.

#### ***FREQUENT JOB CHANGES***

Although individuals who change jobs frequently often perform equally with those who have been employed by a single employer, there may be occasions that warrant a closer examination of employment and income.

Example: Frequent changes in employment for reasons other than advancement (e.g., changing careers) or extended periods of unemployment may be indicative of an unsteady work history and income. Borrowers with questionable employment histories must have financial strengths in order to be considered for maximum financing. Negative comments received from an employer may or may not be reason to decline the application, but circumstances must be investigated thoroughly before doing so.

## Conventional Underwriting Guidelines

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Borrowers who work in certain industries may experience frequent job changes due to the nature of the work (e.g., seasonal or unskilled labor). In these instances borrowers should not be penalized provided they have demonstrated the ability to maintain a steady income despite the changes.

### CALCULATING INCOME

Individuals either receive a fixed regular annual income (usually paid monthly, semimonthly, biweekly, or weekly) or they may work and get paid by the hour, day, or week. All receive regular compensation in the form of a paycheck and year-end income is reported via a W-2. Each type of qualifying income is calculated differently.

**Hourly:** Hourly Rate x # of Hours x 52 weeks/12 = Monthly Base Income

**Weekly:** Weekly Base Salary x 52 weeks/12 = Monthly Base Income

**Biweekly:** Biweekly Base Salary x 26 weeks/12 = Monthly Base Income

**Semi-Monthly:** Semi-Monthly Base Pay x 24 weeks/12 = Monthly Base Income

**Monthly:** Monthly Base Pay as shown (without overtime, bonus or commissions)

**Annually:** Annual rate of pay (without overtime, bonus, commissions)/12 = Monthly Base Income

It is important to establish an earnings trend. Annual earnings that are level or increasing from one year to the next reflect income stability. However, if the earnings show a decline compared to the current year, there must be strong compensating factors to support using the income. If the borrower's employer is unable to predict whether the income will continue, it may be considered provided the employer does not specifically state that income is not likely to continue.

Borrowers must establish long-term, stable income from employment or other sources. The adequacy and continuance of income are as important as stable employment. Income may come from many different sources. Salary and wage income is the easiest to determine and verify. Income from most other sources can be considered as qualifying income as long as it is properly documented. Income received from any source that cannot be verified is not acceptable for the purpose of qualifying borrowers.

Underwriters will give special consideration to regular sources of income that are non-taxable, such as child support payments, Social Security, disability, retirement payments, workers' compensation benefits, certain types of public assistance payments, etc. Tax returns must be provided to document that a particular source of income is non-taxable and determine the amount of tax that would normally be paid by a wage earner in a similar tax bracket and add it to the borrower's income to develop an Adjusted Gross Income. This adjusted gross income should be used in calculations for the income and debt ratios. When underwriting with a loan in conjunction with Loan Prospector® (LP) and/or Desktop Underwriter® (DU), documentation requirements as outlined on the feedback/findings reports generated by LP and DU must be obtained. The income information must be input correctly not only in terms of amount, but categorically (commission income in appropriate section, borrower indicated as self-employed, etc.). Desktop Underwriter and Loan Prospector may grant the ability to obtain reduced documentation to document a borrower's income. Verification of income will depend upon product requirements and current Flagstar Bank policy (i.e. when a 4506-T is required, what type of verbal verification must be performed, etc). Loans eligible for *Accept Plus* documentation from LP or only requiring a verbal verification from DU will require at least a current year-to-date paystub for wage earning borrowers and the most recent tax returns for self employed borrowers. If the most recent 1040 results are not available, then evidence of an extension will be required along with filed prior year returns. Additional conditions may apply based on the income documentation submitted.

### UNACCEPTABLE SOURCES OF INCOME

Income derived from any of the following may not be used in calculating qualifying income:

- Income based on future wage increases
- Draw Income
- VA Education Benefits
- Income not listed on Tax Returns or income that cannot be documented and verified

Special consideration may need to be given to income from sources other than wages and salaries. Specific treatment for the other types of income is discussed in more detail in the following.

### TYPES OF INCOME

#### ***ALIMONY OR CHILD SUPPORT***

In order for alimony or child support to be considered as acceptable stable, income, it must continue for at least three years after the date of the mortgage application. We will accept as verification that alimony or child support will continue to be paid a photocopy of the divorce decree or separation agreement (if the divorce is not final) that provides for the payment of alimony or child support and states the amount of the award and the period of time over which it will be received; any other type of written legal agreement or court decree that describes the payment terms for the alimony or child support; or any applicable state law that requires alimony, child support or maintenance payments and specifies the conditions under which the payments must be made. Voluntary or proposed payments may not be used as income. When determining the acceptability of this type of income, the lender should take into consideration the borrower's regular receipt of the full payment due (stability) and any limitations on the continuance of the payments (the age of the children for whom the support is being paid or the duration over which alimony is required to be paid). If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should not consider any proposed or voluntary payments as income when qualifying the borrower.

The borrower must provide acceptable evidence of his or her receipt of funds for alimony or child support or maintenance payments, such as deposit slips, court records, copies of signed federal income tax returns that were filed with the IRS or copies of the borrower's bank statements that show the regular deposit of these funds. A lender's underwriting analysis should take into consideration the regularity and timeliness of the payments, as well as whether the borrower received all or only part of the full amount that was due.

Document no less than six months of the borrower's most recent regular receipt of the full payment. To be considered stable income, full, regular and timely payment must have been received for six months or longer. Income received for less than six months is considered unstable and may not be used to qualify the borrower for the mortgage. When a borrower has been receiving full, regular and timely payments for alimony or child support or maintenance for fewer than 6 months, the income may not be considered as stable income, although, if the income is adequately documented, the lender may use it to justify a higher qualifying ratio.

When a borrower has been receiving full or partial payments for alimony or child support or maintenance on an inconsistent or sporadic basis, the income may not be considered as stable income or be used to justify a higher qualifying ratio.

#### ***ANNUITY INCOME***

Annuity income is similar to pension and Social Security income except that it may not be payable for life. A copy of the most recent updated annuity renewal statement showing the effective date, amount,

frequency, and duration of the benefit payments showing income will continue for at least three years must be obtained.

### ***AUTOMOBILE ALLOWANCES AND NON-REIMBURSED EXPENSES***

We will consider automobile allowances as acceptable stable income for a borrower who has been receiving the payments for at least 2 years, provided all associated business expenditures are included in the calculation of the borrower's total debt-to-income ratio. Automobile allowances that have been received for less than 2 years should not be included when calculating the borrower's debt-to-income ratio, but may be used to justify a higher qualifying ratio. Either an actual cash flow approach or an income and debt approach should be used to calculate the income associated with automobile allowances, depending on whether or not the borrower accounts for the allowance on the Employee Business Expenses (IRS Form 2106) or the Profit or Loss from Business (Schedule C) to the U. S. Income Tax Return (IRS Form 1040).

When the borrower reports the allowance on the Employee Business Expenses (IRS Form 2106) or the Profit or Loss from Business (Schedule C), the actual cash flow approach should be used to determine whether the payments exceed or fall short of the borrower's actual expenditures. Any funds in excess of the borrower's monthly expenditures are added to the borrower's monthly income. Any expenses in excess of the monthly allowance must be included in the borrower's total monthly obligations. When the borrower used IRS Form 2106 and recognized "actual expenses" instead of the "standard mileage rate," the "actual expenses" section must be reviewed to identify the borrower's actual lease payments and then make appropriate adjustments.

When the borrower does not report the allowance on either Form 2106 or Schedule C, the lender should use the income and debt approach. In this case, the full amount of the allowance is added to the borrower's monthly income. However, the full amount of the lease or financing expenditure for the automobile must be added to the borrower's total monthly obligations.

### ***BOARDER INCOME***

Rental income from boarders in a 1-Unit property that is also the borrower's principal residence or second home is not generally considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income, in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.
- MyCommunityMortgage has an additional exception. The boarder must 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 boarder's address as being the same as the borrower's address) and the payment of rental payments for the last 12 months (such as a copy of his or her canceled checks).

### ***BONUS INCOME***

Bonus income can be used to qualify the borrower if the employer verifies that the borrower has received it for the past two years and indicates that the bonus income will in all probability continue. The consistency with which the borrower receives bonus income must be determined. Bonuses that are received annually or on another periodic basis are acceptable, even if the amount of the bonus fluctuates. However, an average of the last two years of bonus income should be used to determine the

amount of income that can be used in qualifying the borrower. Projected bonus income that has no historical basis is not an acceptable source of income.

### ***CAPITAL GAINS INCOME***

Income received from a capital gain is generally a one-time transaction; therefore, it should not usually be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on the income from capital gains to qualify for the mortgage, copies of the borrower's signed federal income tax returns that were filed with the IRS for the past 2 years, including the related Capital Gains and Losses (Schedule D to IRS Form 1040) must be obtained. When the borrower's tax returns show that he or she has realized capital gains for the last 2 years, develop an average income from capital gains and use that amount as part of the borrower's qualifying income, as long as the borrower provides evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage payments.

The sale of real estate is not acceptable to be used as qualifying income unless documentation can establish that the borrower does this for a living.

### ***CLERGY INCOME***

Clergy income must be reported as wage, parsonage or honorarium income on filed returns to be considered for qualification. Income cannot be documented solely with a verification of employment (VOE). If the parsonage or honorarium income is not reported on the filed returns, but is reflected in box 14 of the W2 or box 3 of the 1099, the income can be used for qualifying purposes if the borrower provides the IRS Form 4361, Application for Exemption From Self-Employed Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners that is marked approved and is signed by a director with the IRS.

### ***COMMISSION INCOME***

Commission income may fluctuate from-year to-year. Therefore, an average of the last 2 years must be developed to qualify the borrower. Commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors to reasonably offset the shorter income history and there is a likelihood that the borrower will continue to receive such income.

If commission income represents 25% or more of the borrower's total annual income, copies of the borrower's signed federal income tax returns that were filed with the IRS must be obtained for the past 2 years and a confirmation of the borrower's current employment and-year-to-date earnings.

In order for the commission income to be used in qualifying the borrower, the commission income reported on the tax returns must cover at least a 12-month period.

It is also important to establish an earnings trend for commission income. Annual earnings that are level or increasing from 1-year to the next are acceptable. When calculating the borrower's annual income, any non-reimbursed business expenses must be subtracted from the gross commission income. If the trend for the commission earnings shows a decline, they should not be considered as stable income. The Underwriter will use the worst case scenario.

If the borrower is commissioned and is with a new employer, it must be within the same line of work and selling the same type of goods and services. If year to date earnings do not support previous years monthly average, only the year to date earnings will be used to qualify the borrower.

### **CONVERTING FROM PART TIME TO FULL TIME**

When a borrower is converting from part time to full time with the same employer, the income must be documented with a paystub reflecting 30 days year to date earnings of full time employment along with a WVOE to document the date the borrower transitioned to full time in order to use the current wages.

### **CORPORATE RELOCATIONS**

Borrower's employer is allowed to make a contribution for closing costs and prepaids only subject to the limitations in the [Contributions by Interested Parties](#) section. Contributions from an employer cannot fund any part of a down payment.

### **DISABILITY INCOME**

Disability benefit payments should be treated as acceptable income unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. Benefits that have a defined expiration date must have a remaining term of at least 3 years from the date of the mortgage application in order to be used for qualifying the borrower. For example, if a borrower is receiving disability benefits that are scheduled to be discontinued when he or she reaches a certain age and the borrower will reach that age within 3 years of loan closing, the lender should not count the disability benefit as stable income. When a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next 3 years because they are being converted to long-term benefits, the lender must use the amount of the long-term payments in determining the borrower's stable income.

Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. Verification of long term disability must be documented with one of the following:

- Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine:
  - the borrower's current eligibility for the disability benefits, and
  - the amount and frequency of the disability payments, and
  - if there is contractually established termination or modification date
- Social Security income for long term disability will not have a defined expiration date and must be expected to continue. Verification of income must be documented with one of the following:
  - a copy of the Social Security Administration's award letter; or
  - copies of signed federal income tax returns; or
  - Social Security Benefit Statement (Form SSA-1099); or
  - Copies of the borrower's recent bank statements

### **EMPLOYMENT CONTRACTS**

Borrowers must begin employment prior to the loan closing. A full written verification of employment must be provided at closing to confirm that the borrower has started and to support the wages stated within the contract.

### **EMPLOYMENT-RELATED ASSETS AS QUALIFYING INCOME FOR FANNIE MAE**

The following table provides the requirements for employment-related assets that may be used as qualifying income:

### Asset Requirements

Assets used for monthly income stream must be owned individually or the co-owner of the asset must be a co-borrower of the subject property.

Assets must be liquid and available to the borrower with no penalty.

- Non-self-employed severance package or non-self-employed lump sum retirement package (i.e., a lump sum distribution) must be documented with a distribution letter from the employer (1099R) and deposited to a verified asset account.
- 401(k) or IRA, SEP, KEOGH retirement accounts, the borrower must have unrestricted access without penalty to the accounts and can only use if distribution is not already set up or the distribution amount is not enough to qualify. The account must be documented with the most recent monthly, quarterly or annual statement.
- Lump sum distributions (Freddie Mac requirements)
  - Lump-sum distribution funds must be derived from a retirement account recognized by the IRS (e.g., 401(k), IRA) and must be deposited to a non-retirement brokerage or depository account
  - A Borrower must have been the recipient of the lump-sum distribution funds.
  - Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the funds from the lump-sum distribution
  - The proceeds from the lump-sum distribution must be immediately accessible in their entirety
  - The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty
- Assets from the sale of the Borrower's business (Freddie Mac Requirements)
  - The Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the non-retirement brokerage or depository account
  - Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the proceeds from the sale of the Borrower's business
  - The proceeds from the sale of the business must be immediately accessible in their entirety
  - The sale of the business must not have resulted in the following: retention of business assets, existing secured or unsecured debt, ownership interest or seller-held notes to buyer of business

If the assets are in the form of:

- Stocks, bonds and mutual funds: 70% of the value (remaining after costs for the transaction) may be used to determine the income stream.
- Retirement accounts: 70% of the value (remaining after costs for the transaction) may be used to determine the income stream. Note: The 10% penalty for early withdrawal is not applicable as the borrower must be eligible to withdraw the funds with no penalty.

### Net Documented Assets

The sum of eligible documented assets, minus discount (if retirement, stocks, bonds, mutual funds), minus any funds that will be used for closing or required for reserves.

### Ineligible Assets

Non-employment related assets (e.g., stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, divorce proceeds, etc.)

All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

## Conventional Underwriting Guidelines

Loan Parameters for Employment-Related Assets	
Parameter	Transaction Requirements
Maximum LTV/CLTV/HCLTV	70%
Minimum Credit Score	620 credit score
Loan Purpose	Purchase and limited cash-out refinance <b>only</b>
Occupancy	Principal residence and second home <b>only</b>
Number of units	Fannie Mae: 1 to 4-Units. Freddie Mac: single family only
Income Calculation/Payout Stream	Divide "Net Documented Assets" by 360 months (30-year term must be used regardless of borrower age or amortization term).

### **FAMILY OWNED BUSINESSES**

A borrower who is employed by a family member is considered self-employed, regardless of the percentage of ownership, and self-employed documentation is required. The Correspondent should clarify potential ownership by the borrowers of family-owned businesses. A borrower may be an officer of a family operated business but not an owner. Borrowers must provide the preceding 2 years signed, dated individual and business (if applicable) tax returns, with all supporting schedules, and IRS Form 4506-T for all applicable tax returns for prior years.

### **FOREIGN INCOME**

Foreign income is income that is earned from a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met.

All income must be converted to US dollars based on the exchange rate at the time of underwriting for qualifying purposes.

All written communication must be presented in English or translated to English by a certified translator.

Foreign Income				
Citizenship	Residency	Occupancy	Verification	Ineligible
US Citizen Resident Alien (Green Card)	May live abroad, but must still maintain a present address within the US.	Subject to underwriter's discretion	Copies of his or her signed federal income tax returns filed with the IRS for the past two years that include foreign income verified with 4506T.	Self employed borrower who earns the self employment income from a country other than the United States and is not reported on the borrowers 1040's.
			Foreign earned pension converted to U.S. currency.	
			Documentation to satisfy the standard documentation requirements.	Unlawful aliens not eligible.

Foreign Income				
Citizenship	Residency	Occupancy	Verification	Ineligible
Non-Permanent Resident Alien (Visa)	Must currently and lawfully reside in the US	Subject to underwriter's discretion	Copies of his or her signed federal income tax returns filed with the IRS for the past two years that include foreign income verified with 4506T.	Self employed borrower who earns the self employment income from a country other than the United States.
			Foreign earned pension converted to U.S. currency.	Previously self employed borrowers are not eligible.
			Documentation to satisfy the standard documentation requirements.	Unlawful aliens not eligible.

Refer to the [Resident and Immigration Status](#) section for additional eligibility requirements.

### **FOSTER-CARE INCOME**

Income that a borrower receives from a state or county-sponsored organization for providing temporary care for one or more children may be considered as acceptable stable income as long as the borrower has a 2-year history of providing foster-care services and is likely, in the foreseeable future, to continue to provide such services at a level that supports the amount of income needed for qualifying for the mortgage. If a borrower has not been receiving this type of income for 2 full years, we may nevertheless count the income as stable income, as long as the borrower has at least a 12-month history of providing foster care services and this income does not represent more than 30% of the total gross income that is used to qualify the borrower for the mortgage.

Foster-care income may be verified by:

- Letters from the organizations providing the income,
- Copies of the borrower's signed federal income tax returns that were filed with the IRS, or
- Copies of the borrower's deposit slips or bank statements that confirm the regular deposit of the payments.

### **GAP IN EMPLOYMENT**

The borrower must explain any employment gaps that extend beyond 60 days, and must provide a paystub with at least 30 days year to date earnings. If the reason for the employment gap indicates a serious concern about the likelihood of stability/continuance of income, then more work/analysis may be needed. The underwriter should be considering how recent the gaps are, the length of time, and how many gaps have occurred.

### **INTEREST AND DIVIDENDS**

Interest and dividend income may be used as acceptable stable income if it is properly documented and has been received for the past two years and is expected to continue to be received for a minimum of 3 years from the date of the mortgage application. An average of the income received for the past 2 years must be used to qualifying the borrower. Copies of signed federal income tax returns that were filed with the IRS or account statements may be used to verify this income.

Interest and dividend income may be used as acceptable stable income if it is properly documented and ownership of the assets on which the interest and/or dividend income was earned is verified. Any assets used for down payment or closing costs must be subtracted from the borrower's total assets before calculating expected future interest or dividend income.

**Mortgage differential payments:** An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. These payments can be considered as acceptable stable income if the borrower's employer verifies its subsidy in writing stating the amount and duration of the payments. The payments must continue for at least three years from the date of the mortgage application. The differential payments should be added to the borrower's gross income when calculating the qualifying ratio. They cannot be used to offset directly the mortgage payment, even if the employer pays them to the mortgage lender (rather than to the borrower).

### **MILITARY INCOME**

Military personnel may be entitled to different types of pay in addition to their base pay. The following may be considered stable income provided there is documentation verifying the income will continue for at least three years:

- Flight Pay
- Hazardous Duty Pay
- Rations
- Clothing Allowance (usually paid yearly)
- Housing Allowances

Education benefits may not be used to calculate qualifying income.

Obtain a copy of the borrower's last Leave and Earnings Statement (LES) to verify allotments, allowances, estimated time in service, and the amount of net and gross pay. Also, obtain and verify the following information from the borrower's latest Leave and Earnings Statement (LES):

- Military Rank
- Social Security Number
- Military Address
- Length of active service to date

The tax-free income from housing (BAQ), rations, uniforms, food, flight pay, etc., can be used as income to qualify for the loan. Grossing up of this income is subject to standard. The LES statement must show at least 12 months remaining for time in service, otherwise the tax-free income cannot be used to qualify for the loan. As long as there is at least 12 months remaining before the borrower's "out date" (as verified on the LES), a verbal verification of employment is not needed.

### **MORTGAGE CREDIT CERTIFICATES**

States and other political subdivisions can issue mortgage credit certificates (MCCs) in place of or as part of, their authority to issue mortgage revenue bonds. Mortgage credit certificates enable an eligible first-time homebuyer to obtain from a lender a market-rate mortgage that will be secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments. The borrower is permitted to reduce the withholding on his or her

## Conventional Underwriting Guidelines

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wages by the full amount of the tax credit to ensure that he or she will have an adequate cash flow and the ability to make the periodic mortgage payments.

When calculating the borrower's debt-to-income ratio, the underwriter should treat the maximum possible mortgage credit certificate income available to the borrower as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. The amount that is added to the borrower's monthly income would be calculated as follows:

$$(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%}) / 12$$

Broker and Correspondent loans utilizing a MCC cannot close in Flagstar Bank's name.

### **NEWLY EMPLOYED**

For a borrower who has less than a two-year employment and income history, the borrower's income may be used for qualifying if the borrower can document he/she was either attending school or in a training program immediately prior to their current employment history.

### **NOTES RECEIVABLE**

Payments on notes receivable must continue for at least 3 years from the date of the mortgage application in order to be considered as acceptable stable income. We require a copy of the note to establish the amount and length of payment. Borrowers must provide evidence the funds have been received for the past 12 months. Acceptable evidence includes deposit slips, copies of signed federal income tax returns that were filed with the IRS or copies of the borrower's bank statements that show consistent deposits of these funds. Payments on a newly executed note that specifies a minimum duration of 3 years may not be used as stable income, but they may be used to justify a higher qualifying ratio.

### **NON- OCCUPYING CO-BORROWER'S INCOME**

The income of a co-borrower who will not be occupying the security property may be considered as acceptable qualifying income if the loan-to-value ratio for the mortgage is 90% or less. However, the occupant-borrower must still reasonably demonstrate an ability and willingness to make the mortgage payment and maintain homeownership. The income from the non-occupying co-borrower can offset certain weaknesses that may be in the occupant-borrower's loan application, such as limited financial reserves, limited credit history or a higher-than-normal qualifying ratio. However, the income from a non-occupying co-borrower cannot be used to offset significant or recent instances of major derogatory credit in the occupant-borrower's credit history or an occupant-borrower's inability to make the mortgage payment without regular and significant assistance from the non-occupying co-borrower.

### **OVERTIME INCOME**

Overtime income can be used to qualify the borrower if it can be verified the borrower has received it for the last 2 years and indicates that the overtime income will in all probability continue. An average of the last 2 years overtime income should be developed to determine the amount of income that can be considered in qualifying the borrower.

The stability of the overtime income must also be determined. It is important to establish an earnings trend for overtime income. Annual overtime earnings that are level or increasing from 1-year to the next are acceptable. However, if the trend for the overtime earnings shows a decline, they will not be considered as stable. For example, if the borrower's year-to-date paystub indicates the regular receipt of overtime earnings for the current-year, the overtime income generally will be acceptable in spite of

the earlier declines; however, if the borrower has recently changed positions (but not employers), the effect of the change on the borrower's eligibility and opportunity to receive overtime income must be determined. Projected overtime pay that has no historical basis is not an acceptable source of income. In some cases, despite an ordinarily acceptable history of receipt of overtime income, Flagstar Bank may elect not to allow a borrower to be qualified using overtime pay as a function of topical media news indicating the borrower is employed in a financially troubled company or industry.

### ***PART-TIME INCOME***

Part-time, second-job or multiple-job income may be considered as stable income if it can be verified as having been uninterrupted for the previous two years and has a strong likelihood of continuation. Verification of part-time or second-job income must be supported by IRS W-2 forms. If a borrower who has historically been employed on a part-time basis indicates that he or she will now be working full-time, written confirmation must be obtained from the borrower's employer.

Occasionally, an applicant who has less than a 2-year history of receiving income from part-time or multiple-job employment may need that income to qualify for the mortgage. There is flexibility of accepting less than a 2-year history, but no less than a 12-month history for a borrower if there is a strong likelihood that the borrower will continue to receive that income and the lender develops an average monthly income for the part-time or multiple jobs.

Situations in which a shorter history of receiving income from a part-time job may be acceptable include those in which there are two borrowers, one who has always been a full-time employee and one who had recently returned to work on a part-time basis; those in which a full-time employee took on a second, part-time job to offset the loss of income from overtime pay that was no longer available from his or her primary source of employment; etc.

When a borrower relies on the income from a second job to qualify for a mortgage, it should be determined if there has been any change in the borrower's overall employment status that might jeopardize the continuance of income from the second job. For example, if a borrower recently accepted a new primary job, but arranged to continue working at his or her old job as a second job, the borrower would have a history of receiving income from what is now considered a second-job, but there would be no history of his or her ability to handle two jobs on a continuing basis. For that reason, the income from this second job would not be acceptable to use in qualifying the borrower.

### ***PUBLIC ASSISTANCE***

Income from public assistance may be considered as acceptable stable income if it is properly documented, has been received for the past 2 years and is expected to continue to be received for at least 3 years from the date of the mortgage application. Public assistance income should be documented by letters or exhibits from the paying agency that state the amount, frequency and duration of the benefit payments.

Monthly Section 8 voucher payments also are an acceptable source of qualifying income. There is no requirement, however, for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application. Verification must be obtained from the public agency that issued the voucher to the borrower of the monthly payment amount and that the income is non-taxable.

### ***RE-ENTERING THE WORK FORCE***

For a borrower who is re-entering the workforce and has less than a two-year employment and income history, the borrower's income may be used for qualifying as long as the borrower has been at the

current employer for a minimum of six months prior to the application date and there is evidence of previous employment history.

### **RENTAL INCOME**

#### **Calculating monthly net rental income or loss**

When the subject property will be rented and is a 1 to 2-Unit dwelling, you must calculate rental income as follows if the borrower is not being qualified with the full PITI payment:

- Determine the cash flow and operating income derived from the rental property. The appraiser must complete an Operating Income Statement (Form 216).
- Determine the gross income to be used in determining the income-producing ability of the subject property using the appropriate form:
  - Single-Family Comparable Rent Schedule (Form 1007)
  - Small Residential Income Property Appraisal Report (Form 1025)

For Freddie Mac transactions, the borrower must have a 2-year history of rental income for leases to be used for qualifying.

Calculate the monthly net rental income (or loss) as described in the following tables:

<b>Rental Income From the Security Property</b>		
<b>Does Borrower Have History of Receiving Rental Income From Property?</b>	<b>Documentation Requirements</b>	<b>Calculate Monthly Net Rental Income (or Loss)</b>
Yes	Document the rental cash flow by obtaining a copy of the most recent year filed tax return, pages 1 and 2 and Schedule E.	Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns.

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Rental Income From the Security Property		
Does Borrower Have History of Receiving Rental Income From Property?	Documentation Requirements	Calculate Monthly Net Rental Income (or Loss)
No	<p>Document the rental income by obtaining an appraiser's opinion of market rent and copies of the current lease agreement(s) and receipt of a security deposit from the tenant and deposit into the borrower's account must be provided (required for purchases). Leases can only be used if a property is not listed on Schedule E because it was acquired subsequent to filing the tax return).</p> <p>If the borrower does not have a lease agreement, market rent from form 1007 may be used for qualifying purposes for Purchase Transaction if all of the following loan parameters are met:</p> <p><b>2-Unit Owner Occupied Properties Only</b></p> <ul style="list-style-type: none"> <li>• Minimum FICO 680</li> <li>• 6 months liquid reserves (no 401k's, IRA's, stock accounts, etc...)</li> <li>• Only eligible for FNMA</li> </ul> <p><b>1 to 2-Unit Investment Property</b></p> <ul style="list-style-type: none"> <li>• Minimum FICO of 680</li> <li>• 6 months liquid reserves (no 401k's, IRA's, stock accounts, etc.)</li> <li>• Previous landlord experience as evidenced by schedule E from previous year</li> <li>• Only eligible for FNMA</li> </ul> <p><b>3 to 4-Unit</b></p> <ul style="list-style-type: none"> <li>• Minimum FICO of 720</li> <li>• 12 months liquid reserves (no 401k's, IRA's, stock accounts, etc.)</li> <li>• Previous landlord experience as evidenced by schedule E from previous year</li> <li>• Only eligible for FNMA</li> </ul>	<p>The gross rental income from the property is equal to the lesser of the market rent established by the appraiser or the current rent based on the existing lease agreement(s). Net rental income equals 75% of the gross rent; the remaining 25% of the gross rent is absorbed by vacancy losses and ongoing maintenance expenses.</p>

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When the borrower owns additional property that is rented, calculate the monthly net rental income (or loss) in accordance with the following table.

<b>Rental Income From Property Other Than the Security Property</b>		
<b>Does Borrower Have History of Receiving Rental Income From Property?</b>	<b>Documentation Requirements</b>	<b>Calculating Monthly Net Rental Income (or Loss)</b>
Yes	Obtain copies of the borrower's most recent two years of signed federal income tax returns and the related Schedule E, or a copy of the current lease agreement(s) (only if a property is not listed on Schedule E because it was acquired subsequent to filing the tax return).	Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns.
No	Obtain copies of current lease agreements (only if a property is not listed on Schedule E because it was acquired subsequent to filing the tax return).	Net rental income is 75% of the gross rent from the lease agreements, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses.

### **Treatment of the Income (or Expense)**

The amount of monthly net rental income (or loss) that is considered as part of the borrower's total monthly income (or expenses) and its treatment in the calculation of the borrower's total debt-to-income ratio will vary depending on whether the borrower occupies the rental property as his or her principal residence.

If the net rental income (or loss) relates to the borrower's principal residence:

- The monthly net rental income (as defined above) must be added to the borrower's total monthly income.
- Any net rental loss must be added to the borrower's total monthly obligations.
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

If the net rental income (or loss) relates to a property other than the borrower's principal residence:

- The monthly net rental income (as defined above, but excluding the full amount of the related mortgage payment) must be added to the borrower's total monthly income.
- Any monthly net rental loss must be added to the borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss), therefore, it should not be counted as a monthly obligation.
- The full PITIA for the borrower's principal residence must be counted as a monthly obligation.

When Schedule E is used to calculate rental income, the full PITIA must be accounted for. Any listed depreciation, interest, taxes, insurance or HOA expenses will be added back to the borrower's

cash flow. Please refer to the FNMA Cash Flow Analysis Form 1084 dated 10/01 or the Freddie Mac Income Analysis Form 91 dated 4/2010.

### **DEPARTURE OF CURRENT RESIDENCE**

#### **When converting a primary residence to an investment property**

We will use 75% of gross rental income as stated on the lease as evidence of rental income or to offset the payment if the following conditions are met:

- There must be documented equity of at least 30% in the existing property derived from at least a 2055 exterior-only inspection, dated no more than 60 days from the Note Date.
- The rental income must be documented with a copy of the fully executed lease agreement
- The receipt of a security deposit from the tenant and deposit into the borrower's account or held in escrow by the settlement agent.
- This method of calculating income is not allowable for Freddie Mac transactions unless the borrower has a 2-year landlord history.
- Meet the minimum reserve requirement based on investor and property type

#### **When a primary residence has been converted to an investment property**

We will use 75% of gross rental income as stated on the lease as evidence of rental income or to offset the payment when the property is not listed on the Schedule E because it was converted subsequent to filing the tax return if the following conditions are met:

- There must be documented equity of at least 30% in the existing property from at least a 2055 exterior-only inspection, dated no more than 60 days from the Note Date.
- The rental income must be documented with a copy of the fully executed lease agreement a
- This method of calculating income is not allowable for Freddie Mac transactions unless the borrower has a 2-year landlord history

### **RETIREMENT, GOVERNMENT AND PENSION INCOME**

Retirement or pension income is an acceptable source of stable income as long as the borrower's regular receipt of the payments is confirmed. Retirement income may be verified by letters from the organizations providing the income, copies of retirement award letters, copies of signed federal income tax returns that were filed with the IRS, IRS W-2 forms or copies of the borrower's three most recent bank statements. When the retirement income is received in the form of a monthly annuity payment or a monthly distribution from a 401(k), IRA or Keogh retirement account, the lender must determine that the income is expected to continue to be received for at least 3 years after the date of the mortgage application.

### **ROYALTY PAYMENTS**

If the borrower needs to rely on income from royalty payments to qualify for the mortgage, copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two years, including the related Supplemental Income and Loss (Schedule E to IRS Form 1040) must be obtained. Documented evidence showing that the borrower has received royalty payments for at least 12 months and will continue to receive them for at least 3 years after the date of the mortgage application is required in order to use the payments as qualifying income.

### **SEASONAL JOB INCOME**

Seasonal, part-time or second job income (including seasonal unemployment compensation) can be considered as stable income if the borrower has worked in the same job (or line of seasonal work) for the past two years and the borrower's employer indicates that there is a reasonable expectation that the borrower will be rehired for the next season. Examples of borrowers who have seasonal jobs

include outdoor laborers (landscapers, construction workers, etc.), income tax preparers, supplemental department store personnel who work during the Christmas shopping period or another holiday period, etc. Seasonal unemployment compensation should not be used to qualify the borrower unless it is appropriately documented, clearly associated with seasonal layoffs, expected to recur and reported on the borrower's federal income tax returns.

### **SELF EMPLOYED BORROWERS**

The following matrix outlines the required documentation for self-employed borrower:

- Sole Proprietorship
  - 2 years 1040s with all schedules (unless LP only required 1 year)
  - Original signed IRS form 4506-T (prior to closing)
  - Original signed IRS form 4506-T (at closing)
- General Partnership
  - 2 years 1040s with all schedules (unless LP only required 1 year)
  - 2 years 1065s (Partnership returns)
  - Schedule K-1
  - Original signed IRS forms 4506-T (prior to closing)
  - Original signed IRS form 4506-T (at closing)
- Limited Partnership
  - 2 years 1040s with all schedules (unless LP only required 1 year)
  - Schedule K-1
  - Original signed IRS forms 4506-T (prior to closing)
  - Original signed IRS form 4506-T (at closing)
- Corporation (IRS 1120)
  - 2 years 1040s with all schedules (unless LP only required 1 year)
  - 2 years W-2s from corporation
  - 2 years 1120s (Corporate returns)
  - Borrower must be 100 % owner of the business in order to use any of the business income
  - Original signed IRS forms 4506-T (prior to closing)
  - Original signed IRS form 4506-T (at closing)
- S Corporation (IRS 1120S)
  - 2 years 1040s with all schedules (unless LP only required 1 year)
  - 2 years 1120Ss (S Corporation returns)
  - Schedule K-1
  - Original signed IRS forms 4506-T (prior to closing)
  - Original signed IRS form 4506-T (at closing)
  -

Generally, the self-employed borrower's income is computed by performing a careful analysis of the previous two years' federal tax returns and business returns, if applicable. If the most recent 1040 results are not available, then evidence of an extension will be required along with filed prior year returns. Additional conditions may apply based on the income documentation submitted. Declining

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income is subject to careful analysis and may not be approvable. If approvable, generally a “worst-case” scenario is used for income qualification purposes.

An original signed IRS form 4506-T is mandatory at the time of loan submission and an original signed IRS form 4506-T is required at closing. The borrower must sign an additional form 4506-T for a partnership or corporation, prior to closing and it must state such on the form (i.e. John Smith, owner of XYZ Corporation or Partnership). IRS form 4506-T is only valid for a specific limited time.

- On partnership or corporate returns, any mortgages or notes that are due in one year or less must be subtracted from income.
- Guarantee payments to officers require a 2 year history, along with evidence this income will continue for 3 years. (Articles of incorporation or partnership agreement to reflect terms)
- If the borrower has a two-year history of receiving “guaranteed payments to the partner” from a partnership or a LLC, these payments can be added to the borrower’s cash flow.
- If the borrower has less than 25% ownership in a partnership or corporation, partnership returns, corporation returns are not required.

For all self-employed borrowers, a self-employed borrower income analysis worksheet should be submitted with the file. Refer to *Self-Employment Income Worksheet*, [Doc. #3269](#).

Earnings from a Corporation (1120) can only be taken into consideration if the borrower owns 100% of the business.

Flagstar Bank will not allow income from a self-employed borrower who earns their income from a country other than the United States.

Flagstar Bank may order a Dun and Bradstreet Report on self-employed borrowers. This is an expense that Flagstar Bank incurs and will not be a charge to the borrower.

### **SOCIAL SECURITY INCOME**

Social security benefits that have defined expiration dates must have a remaining term of at least three years from the date of the mortgage application to be considered as acceptable stable income. Acceptable verification of social security income includes a photocopy of the Social Security Administration’s award letter, copies of signed federal income tax returns that were filed with the IRS, IRS W-2 forms or copies of the borrower’s most recent 2 months bank statements. Tax returns must be provided to gross up non-taxable Social Security income for qualification.

Social Security benefits received on behalf of another beneficiary or under another’s Social Security account or work record may not necessarily continue for three years. In these instances, documentation of continuance will be required. The following table describes the specific documentation requirements depending on the type of Social Security been received.

Documentation Requirements		
Type of Social Security Benefit	Borrower is drawing Social Security benefits from own account/work record	Borrower is drawing Social Security benefits from another person's account/work record*
Retirement	Social Security Administrator's (SSA) Award letter, OR Proof of current receipt	SSA Award Letter, Proof of current receipt, AND Three-year continuance (e.g., verification of beneficiary's age)
Disability		
Survivor Benefits	N/A	
Supplement Security Income (SSI)	SSA Award Letter, AND Proof of current receipt	N/A

Examples of how a borrower might draw Social Security benefits from another person's account/work record and use the income:

- A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.)

### **TEMPORARY LEAVES OF ABSENCE (INCLUDING MATERNITY LEAVES)**

Temporary leave from an employer may encompass various circumstances (e.g., family and medical, short-term disability, maternity, other temporary leaves with or without pay). Temporary leave is generally short in duration. The period of time that a Borrower is on temporary leave may be determined by various factors such as applicable law, employer policies and short-term insurance policy and/or benefit terms. Leave ceases being considered temporary when the Borrower does not intend to return the current employer or does not have a commitment from the current employer to return to employment.

During a temporary leave, a Borrower's income may be reduced and/or completely interrupted. The lender must determine that during and after the temporary leave the Borrower has capacity to repay the Mortgage and all other monthly obligations.

Determining qualifying income and borrower capacity to meet obligations while on temporary leave.

- For borrowers returning to their current employer prior to the first Mortgage payment due date:
  - The lender may use for qualifying income the Borrower's gross monthly income amount that will be received upon the Borrower's return to current employer.
- For borrowers returning to their current employer after the first Mortgage payment due date the lender must determine the income amount that will be received upon the Borrower's return to current employer. The lender must take into account any temporary reductions in income when determining qualifying income, as follows:
  - The lender may use for qualifying income the Borrower's gross monthly income amount being received during the temporary leave. In the event that the income has been reduced or interrupted, the Lender may use for qualifying income the monthly reduced amount (this amount may be zero) being received during the temporary leave combined with the Borrower's available liquid assets, as necessary. Available liquid assets may be used as a partial or complete income supplement up to the amount of the income reduction.
  - The total qualifying income must not exceed the gross monthly income that will be received upon the Borrower's return to current employer.

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- Asset that are required for the transaction (e.g., down payment, Closing Costs, Financing Costs, Prepaids/Escrow and reserves) may not be considered as available assets to supplement the income.

### **Documentation Requirements**

The following documents must be retained in the loan file:

- Verification of the Borrower's pre-leave income and employment
- Documentation from the current employer confirming the Borrower's statutory right to return to work (or the employer's commitment to permit the Borrower to return to work). The confirmation date of return, and the Borrower's post leave employment and income.
- Written statement signed by the Borrower confirming that the borrower will return to current employer and stating the confirmation date of return that has been agreed upon between the Borrower and the employer.

In addition, the following documentation is required for Borrowers returning to the current employer after the first Mortgage payment due date:

- Documentation evidencing amount, duration and consistency of all temporary leave income sources being used to qualify the Borrower (e.g., short-term disability benefits, or insurance, sick leave benefits, temporarily reduced income from employer) that are being received during the temporary leave
- All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet requirements of and be verified

### **TIP INCOME**

Tip income may be used to qualify the borrower if the borrower has received it for the last two years and the employer indicates that the tip income will in all probability continue. An average of the past two years' tip income will be used to determine the amount of income that may be considered in qualifying the borrower. Tip income must be entered in DU or LP as *Other Income*.

### **TRUST INCOME**

Trust income may be used as acceptable stable income if it is properly documented. Generally we will accept as verification of trust income, a copy of the Trust Agreement or the trustee's statement confirming the amount, frequency and duration of payments. However, if this documentation does not include information about the historical level of distributions from the trust, the lender may also need to obtain copies of the borrower's signed federal income tax returns that were filed with the IRS for the past 2 years, including the related Supplemental Income and Loss (Schedule E to IRS Form 1040) to address this.

The trust income must continue for at least 3 years from the date of the mortgage application in order for it to be considered as income. Lump sum distributions made before the loan closing may be used for down-payment or closing costs, if they are verified by a copy of the check or the trustee's letter that shows the distribution amount.

### **UNEMPLOYMENT BENEFITS**

Unemployment benefits, such as those received by seasonal workers, may be considered as acceptable income if the income is properly documented, has been received for the past 2 years and is predictable and likely to continue (as discussed for seasonal unemployment compensation). Copies of the borrower's signed federal income tax returns that were filed with the IRS for the past 2 years should be used to establish a history of the receipt of these benefits.

### **UNION WORKERS**

Union workers are members of a specific trade union and are often skilled tradesperson (e.g., electricians, plumbers, roofers, etc.). Workers can work for a single employer on a long-term basis or for more than one employer throughout the year. At the completion of a job, the Union will then refer the individual to a new employer. During the individuals' course of employment with the assigned employer, they are paid directly by the employer, not the Union. Their jobs may be seasonal and it is not uncommon for individuals to receive unemployment during down time. If the borrower is in a line of work that is deemed seasonal (e.g., roofing) and is not working at the time of loan application or closing, they may still be eligible for financing. Verify that the borrower is a member of the union and in good standing. It is not necessary to verify the union dues or count them as a liability. If the borrower is a member of a local trade union and obtains employment via these means, income can be verified by the following:

- Paystubs for the current year, 2 years tax returns, and 2 years of W-2s, or
- A VOE from the Union for earnings from all employers during the current year and a W-2 from prior the year.

### **VA BENEFITS**

Most VA benefits are acceptable stable income if they are documented by a letter or distribution forms from the Department of Veterans Affairs and will continue for at least 3 years from the date of the mortgage application. Education benefits are not acceptable income because they are offset by education expenses.

### **EMPLOYMENT VERIFICATION**

To substantiate employment and income for a salaried or commissioned borrower, confirmation of the borrower's earnings for the current year (including the most recent 30-day period) and, if applicable, earnings over the past 2 years, must be provided. Some forms of salaried earnings require confirmation the borrower's employment and income over the past 2 years directly from the IRS. To substantiate employment and income for a self-employed borrower, confirmation of the borrower's personal and business directly from the IRS is required.

If a verification of employment ([Form 1005](#)) is provided, white-outs and un-initialed corrections are not acceptable. Flagstar Bank requires a signed 4506-T with all VOEs (Form 1005). Additionally, we require a signed 4506-T on all files where tax returns are required for any reason. Flagstar Bank will independently verify the information on a VOE (Form 1005) with the borrower's employer.

When working with a loan in conjunction with Loan Prospector® (LP) and/or Desktop Underwriter® (DU), please follow the documentation requirements as outlined on the feedback/findings reports generated by LP and DU. Loans eligible for *Accept Plus* documentation from LP or only requiring a verbal verification from DU will require at least a current year to date pay stub for wage earning borrowers and the most recent tax returns for self employed borrowers. If the most recent 1040 results are not available, then evidence of an extension will be required along with filed prior year returns. Additional conditions may apply based on the income documentation submitted.

### **ALTERNATIVE DOCUMENTATION**

Alternative documentation may include:

- Most recent 2 years W-2s (employee copy)
- Computer generated copies of paystubs for the most recent 30-day period (a single year-to-date paystub is acceptable as long as it covers at least a 30-day period) that displays:
  - The borrower's name or social security number

## Conventional Underwriting Guidelines

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- Total current and year-to-date earnings
- Employer's name
- If the borrower receives handwritten or non-computer generated paystubs, a VOE and signed 4506-T are required prior to closing.
- Telephone confirmation from the borrower's employer from the Human Resources or Personnel Department, or, if the company doesn't have such a department, from the borrower's supervisor. The processor's certification must be for all employers for the previous two years employment.

When supplied income documentation (paystub, W-2s, and/or VOE) shows "rounded" earnings, we may require 1040s to support the income figures provided.

All submitted 4506-Ts will be executed. If any material misrepresentations are found, the purchase commitment will become null and void. A fully-executed 4506-T is required on all full documentation loans with an LTV of 95% or greater. 4506-T results must show that borrowers requiring a tax return for qualification have filed tax returns for the previous tax year(s) or show evidence of a valid filing extension to be eligible.

For Fannie Mae and Freddie Mac, paystubs or payroll earning statements that the borrower downloads from the internet are also acceptable.

You must independently confirm by using the telephone book, calling directory assistance, etc., the telephone number that the borrower provided. You must, at a minimum, obtain the employer's confirmation that the borrower is employed by the firm. You must attempt to verify earnings and probability of employment. If they will not respond, you must state so. The confirmation must state the employer's name, title of the person, the lender employee's name (other than the commissioned loan officer), the date verified and the employer's response to date of hire, salary, and probability of continued employment.

Fannie Mae and Freddie Mac generally require verification of the borrower's employment for the 2 full years that precede the mortgage application. However, when a borrower who is new to the workplace cannot document income and employment for this length of time, the documentation should relate to the length of time that he or she has been employed. For borrowers whose income source is less predictable, such as self-employment or commissions, bonuses, or overtime, please reference the [Types of Income](#) section above.

The borrower must explain any employment gaps that extend beyond 1-month. When a borrower is employed by a relative or closely held family business, a 4506-T will be required. A statement from the accountant or owner to state the purchaser does not have 25% or more interest in the company may be required.

### 4506-T REQUIREMENTS

A signed, executed 4506-T is to be obtained at time of underwriting and at closing for all loans. Please refer to [Flagstar Bank Loan Requirements](#), for execution requirements. For detailed instructions on how to properly complete a 4506-T please reference the [Preparing Your 4506-T guide](#) by Equifax.

### IRS TRANSCRIPTS

When the tax transcripts reflect Schedule C, K-1's, Schedule E rental income/loss and/or Form 2106 - Unreimbursed Business Expense, a copy of the tax returns and schedules will only be required if the income/loss is from Schedule E. The borrower must qualify with any reported losses.



## Conventional Underwriting Guidelines

### MOST RECENT YEAR TAX RETURN REQUIREMENTS

When tax returns are required to document income, the most recent year's tax return is required. The most recent tax return is defined as the last return scheduled to have been filed. For example:

If today's date is...	Then the Most recent Year's Tax Return would be...
February 15, 2014	2012
April 17, 2014	2013
December 15, 2014	2013

The following table describes which tax-related documentation to obtain depending on the closing date.

Underwriting Date	Close Date	Documentation Requirements	Tax Return Expiration Date
October 15, 2013 through April 14, 2014.	On or before April 14, 2014	The most recent year's tax return (2012) and tax transcripts (2012). Extension is not permitted.	April 14, 2014
April 15, 2014 through October 14, 2014	On or after April 15, 2014	The most recent year's tax return (2013) and tax transcripts (2013).	If 2013 tax returns and 2013 transcripts are provided, the tax return expiration date is April 14, 2015
April 15, 2014 through October 14, 2014	On or after April 15, 2014	If the borrower has not yet filed for 2013, proof the borrower(s) filed an extension for the 2013 tax year. IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Tax Returns) filed with the IRS and the 4506-T transcripts confirming "No Transcripts Available" must be provided. Form 4868 must be reviewed for the total tax liability reported and compare it with the borrower's tax liability from the previous two years (unless AUS only requires one year) as a measure of income source and stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary to obtain the 2013 filed returns.	If 2013 tax returns and transcripts are not provided, the tax return expiration date is October 15, 2014



## Conventional Underwriting Guidelines

Note: If income is less in 2013, than in 2012, we will use 2013 figures regardless of the tax transcripts. If the income from 2013 is needed to qualify, the 2013 tax transcripts will be required.

### VICTIMS OF TAXPAYER IDENTIFICATION THEFT

When a borrower(s) is a victim of taxpayer identification theft, the following conditions must be met in order to validate the borrower(s) income:

- Proof of identification theft as evidenced by one of the following:
  - Proof of identification theft was reported to and received by the IRS (IRS form 14039)
  - Copy of notification from the IRS alerting the taxpayer to possible identification theft
- Additionally, provide each of the following secondary documents (as applicable) to validate the reported income on the tax returns in question:
  - W2 or 1099 transcripts which match the W2 or 1099 income shown on the 1040s
  - 1099 Mortgage Interest should match reported interest on Schedule A or Schedule E
  - 1099G Unemployment should match reported unemployment
  - 1099 Interest/Dividend should match reported dividend and interest
  - Validation of prior tax year(s) income (income for current year must be in line with prior year(s))

All Brokers and Correspondents are required to obtain a verbal VOE for all borrowers within 10 business days from the note date for employment income and within 30 days for self-employment income. The verification must be delivered with the closing package.

### ***VERBAL VOE REQUIREMENTS FOR HOURLY, SALARY AND COMMISSION INCOME***

- The broker/correspondent must independently obtain a phone number and, if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the internet or directory assistance, or by contacting the applicable licensing bureau.
- The broker/correspondent must contact the employer, verbally or in writing, and confirm the borrower's current employment status within 10 days prior to the closing date.
- If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number. The written documentation should also include the name and title of the person who performed the verification for the broker/correspondent.

Note: If a borrower is in the military, a military Leave and Earnings Statement (LES) dated within 30 days of closing is acceptable in lieu of a verbal or written VOE.

Verbal VOE requirements for self-employed income to be performed by the customer to meet closing requirement

- The broker/correspondent must verify the existence of the borrower's business within 30 days prior to the note date, from a third party, such as a CPA, regulatory agency or the applicable licensing bureau, if possible; and by verifying a phone listing and address for the borrower's business using a telephone book, the internet or directory assistance.
- If the contact is made verbally, the broker/correspondent must document the source of the information obtained and the name and title of the lender's employee who obtained the information.

## **PROPERTY AND APPRAISAL**

### ACCESSORY UNITS

Fannie Mae does not purchase or securitize mortgage loans on properties if the improvements do not constitute a legally permissible use of the land. Certain exceptions to this policy are made provided the

## Conventional Underwriting Guidelines

property is appraised and underwritten in accordance with the special requirements imposed as a condition to agreeing to make the exception:

Accessory Units	
One or two-unit property that includes a legal or illegal additional-unit or accessory apartment (sometimes referred to as a mother-in-law).	The illegal use conforms to the subject neighborhood and to the market.
	The property is appraised based upon its current use.
	The borrower qualifies for the mortgage without considering any rental income from the illegal-unit.
	The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same illegal use.
	The lender ensures that the existence of the illegal additional-unit will not jeopardize any future hazard insurance claim that might need to be filed for the property.
Three or four-unit property that includes an illegal accessory apartment.	Not allowed

Freddie Mac will purchase a mortgage secured by a 1-Unit detached property that may have an incidental accessory-unit that is incidental to the overall value and appearance of the subject property. Examples of such properties include a dwelling with a unit above a detached garage, a dwelling with a guest apartment or a detached dwelling in a Planned Unit Development with a basement-unit. The appraiser must describe the accessory-unit and analyze any effect on the value or marketability of the subject property that includes a second-unit that is incidental to the overall value and appearance of the subject property.

Commercial use is not allowed.

Considerations that may require the property to be appraised (Form 1025) and treated as multi-unit properties include:

- Zoning
- Size of the accessory-unit relative to the main structure
- Separate mailing address
- Separate metering
- Separate entrance and exit
- Rent collection
- Multiple bedrooms and living spaces

### ADDRESS DETERMINATION

Use the standardized (USPS address) but compare it to the legal description on schedule A on the title commitment. If the legal description's city/township is different, use the legal's city/township but maintain the street address portion provided by USPS.

- The appraiser must provide the legal address on an addendum.
- For multi-unit properties, it is acceptable to use the legal street address.
- The city indicated on the appraisal can be either standardized or legal.

For FHA and VA loans, the Mortrac address (street and city), must match

- FHA case number assignment
- Appraisal (street and city)

Flood Certifications. The city returned on the certification must be the legal city.

### APPRAISALS

All loans submitted to Flagstar Bank require an interior and exterior inspection regardless of AUS requirements unless a Property Inspection Waiver (PIW) is utilized (2055 reports are not acceptable unless full appraisal is greater than 120 calendar days, loan has not closed and is being targeted to Freddie Mac). Property inspection waivers are not eligible in certain circumstances. See Appraisals that must be performed by a Flagstar Approved National Appraisal Vendor section. In addition, if a purchase transaction is the result of the sale of an REO property or the last transaction on the property being purchased was a foreclosure, an appraisal based on an interior and exterior property inspection reported on Form 1004 is required.

Effective for appraisals with an effective date (date of inspection) on or after September 1, 2011, Fannie Mae and Freddie Mac will require the use of Uniform Appraisal Dataset (UAD) – compliant appraisal report forms for the four supported UAD appraisal forms:

- Uniform Residential Appraisal Report (Fannie Mae form 1004)
- Individual Condominium Unit Appraisal Report (Fannie Mae form 1073)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae form 1075)  
Flagstar Bank does not accept Form 1075 reports.
- Exterior-Only Inspection Residential Appraisal Report (Fannie Mae form 2055). Flagstar Bank does not accept Form 2055 reports (unless full appraisal is greater than 120 calendar days, loan has not closed and is being targeted to Freddie Mac).

All appraisals must include photographs of the kitchen, main living area and bathroom. All appraisals are subject to FNMA/FHLMC and USPAP guidelines.

Residential appraisal reports must be dated no more than 120 calendar days from the note date for both existing and new construction. If the appraisal is greater than 120 calendar days, but no more than 240 calendar days, and the loan has not closed, please see below for requirements.

- For loans targeted to Fannie Mae, the appraiser must perform an update on form 1004D which includes
  - Inspect the exterior of the property, and
  - Review current market data to determine whether the property has declined in value since the date of the original appraisal. If the appraiser indicates the property value has declined, a new appraisal will be required
- For loans targeted to Freddie Mac, the appraiser must perform an exterior appraisal on form 2055
  - The lesser of the full appraised value or exterior appraised value is to be used
- For both Fannie Mae and Freddie Mac, if the original appraisal is more than 240 calendar days, a full new appraisal report will be required.

For manually underwritten single-family loans, appraisal form FHLMC Form 70/FNMA Form 1004 (revised 5/2005) will be required. All 2 to 4-unit properties must be submitted on Form 1025 (rev. 5/2005); all condominiums must be submitted on Form 1073 (rev. 5/2005).

Appraisals must be ordered through Loantrac Appraisal Management or by an Appraiser Independence (formerly HVCC) Compliant Correspondent. Refer to *AIR Compliance Questionnaire/Checklist, Doc. #3027* for application process details. For appraisals originally ordered by another lender, refer to the [Appraisal Portability](#) section.

## Conventional Underwriting Guidelines

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Any loan that has a unique or different characteristic other than the normal should not be considered for maximum financing. You should have comparables with the same type of uniqueness or difference. For example, log homes should have log home comparables, etc.

Any physical deficiencies stated on the appraisal that affect the health or safety of the property's occupants must be corrected. If the appraised value is "subject to" by an appraiser, the appraiser must give a final "as-is" value after the requested conditions are met and reviewed by the same appraiser. Please also note that while Fannie Mae does permit an appraiser to add some certifications to appraisal report forms, Fannie Mae will not purchase a mortgage for which the appraiser has added, modified or deleted a *Limiting Condition* on the appraisal report.

Properties in C5 and C6 condition are not saleable. The Property must have a condition rating of C1, C2, C3 or C4 and appraisal completed "as is".

Flagstar Bank reserves the right on any loan to order an AVM (Automated Valuation Model) and/or a review appraisal.

### **REPORT REQUIREMENTS**

Appraisers must give special attention to the valuation of the one-to-four family dwellings intended for or currently used as, rental properties. For 2 to 4-Unit properties, the appraiser must use the Small Residential Income Property Appraisal report, FNMA Form 1025 (Rev. 10/89). The income approach would be given equal consideration with the market approach in the appraiser's final value reconciliation. The appraisal must include:

- The property's legal description
- Layout sketches showing unit entries
- A location map
- Clear photos of property, street scene and comparables used
- Operating Income Statement, FNMA Form 216 (except when rental income is not used to qualify)

On single-family properties that will be rented, the appraiser must use the Single-Family Comparable Rent Schedule (FNMA Form 1007) as an attachment provided the borrowers do not qualify with the full payment. The appraiser must develop an income approach to value that is supported by rent comparable and must consider that information in the final reconciliation. The comparables should be in close proximity to the subject in order to establish the existence of a viable rental market in the neighborhood. For properties that are in established subdivisions or for units in established condominium or PUD projects (those that have resale activity), the appraiser should use comparable sales from within the same subdivision or project as the subject property if there are any available. Resale activity from within the subdivision or project should be the best indicate of value for properties in that subdivision or project. If the appraiser users sales of comparable property that are located outside of the subject neighborhood, he or she must include an explanation with the analysis.

### **COMPARABLES**

The appraisal should contain a minimum of 2 conventional comparable sales, preferably 3. Land contract comparables are unacceptable. Generally the appraiser should use comparable sales that have been closed within the 12 months preceding the effective date of the subject property appraisal. More specifically, comparables should have closed within the average marketing time for the area as indicated by the appraiser. However, the appraiser may use older comparable sales as additional supporting data if he or she believes that it is appropriate. The appraiser must comment on the reasons for using any comparable sales that are more than six months old and/or exceeds the marketing time

## Conventional Underwriting Guidelines

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for the area. Each comparable should be similar to and located near the subject property. For properties located in a declining market, the appraiser should provide comparables dated within 3 to 6 months.

In selecting the comparables, the appraiser should keep in mind that re-sales from within the subject neighborhood or project are preferable to sales more distant from the subject property. Sales prices of comparables should be in the same general range as the property. If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, the appraiser must provide an explanation as to why he or she used the specific comparable sales in the appraisal report. Because rural properties often have large lot sizes and rural neighborhoods can be relatively undeveloped, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. This means that the appraiser will often need to select comparable sales that are located a considerable distance from the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value for the subject property. The appraiser should include an explanation of why the particular comparables were selected.

The appraiser must fully disclose the 12-month listing history of the subject property, complete with the dates and prices the subject was listed for, as well as the source of the listing information. If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, Fannie Mae is adding a requirement that the appraiser provide an explanation as to why he or she used the specific comparable sales in the appraisal report. If the subject has not been listed, the appraiser must list the data source(s) used to confirm that the subject has not been listed. "Public records" is not an acceptable data source. The appraiser must provide a copy of the MLS listing for all listed properties. The 36-month history must be provided for all comparables.

On a new or recently converted condominium, PUD or subdivision, we may require comparable(s) outside of the project at the underwriter's discretion. Interior photos are also required for any recently converted condominium. For new condominium projects, sold comparables from the subject project are generally required. If none exist, at least 2 pending sale comparables are required, with the other sold comparables coming from similar competing projects. Generally, two comparables from inside the subject project and one from outside the subject project should be provided.

For modular homes (factory built, not manufactured), we will generally require at least 2 modular home comparables.

**Sources of Comparable Market Data:** It is important for the appraiser to ensure that the data he or she is providing in the appraisal report is accurate. When the appraiser is provided with comparable sales data by a party that has a financial interest in either the sale or financing of the subject property, the appraiser is required to verify the data with a party that does not have a financial interest in the subject transaction. However, when appraising new construction, the appraiser may need to rely solely on the builder of the property they are appraising to provide comparable sales data, as this data may not yet be available through typical data sources such as public records or multiple listing services. In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the HUD-1 Settlement Statement from the builder's file.

The dollar value of the net adjustments of each comparable should not exceed 15% of the comparables sale prices. The gross adjustment should not exceed 25%. The appraiser must comment on the reason for any adjustments exceeding these limits.

### **NEIGHBORHOOD**

The appraiser must report on the primary indicators of market condition for properties in the subject neighborhood by noting the trends of property values (“increasing”, “stable” or “declining”), the supply of properties in the subject neighborhood (“shortage”, “in balance” or “over supply”) and the marketing time for properties (“under 3 months”, “3 to 6 months” or “more than 6 months”) as of the effective date of the appraisal.

The appraiser’s analysis of the property must take into consideration all factors that affect value. This is particularly important in markets where value is fluctuating. The most recent and similar sales available should be used in these markets.

The appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised (based on the actions of typical buyers in the market area). The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the market area, but also to define the area from which to select the market data needed to perform a sales comparison analysis. As a reminder, although it is preferable for the appraiser to provide comparables from the subject’s neighborhood, Fannie Mae does allow for the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser’s analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist.

The appraiser must fully disclose the 36-month listing history of the subject property, complete with the dates and prices the subject was listed for, as well as the source of the listing information. If the subject has not been listed, the appraiser must list the data source(s) used to confirm that the subject has not been listed. “Public records” is not an acceptable data source. The appraiser must provide a copy of the MLS listing for all listed properties. The 12-month history must be provided for all comparables.

### **COMMUNITY OWNED OR PRIVATELY MAINTAINED STREETS**

#### **Fannie Mae**

If the property is located on a community-owned or privately-owned and maintained street, an adequate legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- Responsibility for payment of repairs, including each party’s representative share;
- Default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations; and
- The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

Note: If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

#### **Freddie Mac**

If the property is located on a community-owned or privately-owned and maintained street, a legally enforceable agreement or covenant for maintenance of the street is not required to be recorded if all the following is met:

- The subject property must have legally appropriate ingress and egress that is recorded

- The streets serving the subject property must be maintained in a manner that generally meets community standards.
- The comparable sales should have street maintenance similar to the subject property. When differences exist between the ownership or maintenance of the subject property's streets and the comparable sale's streets, adjustments or lack of adjustments made to the comparable sales for the differences must be explained in the comments area or on an attached addendum. In addition, the appraisal must evaluate the effect these differences have on the subject property's value or marketability.

### **PURCHASE CONTRACTS**

The appraiser must be provided with the sales contract and all addenda for all purchase transactions to consider the financing and sales concessions in the transaction and their effect on value. If the sales contract is amended during the process, the appraiser must be provided with updated contract. The appraiser must state the total dollar amount of the loan charges and/or concessions that will be paid by the seller (or any other party who has a financial interest the sale or financing of the subject property) and provide a brief description of the items on the appraisal report form. Transactions with realtor commission fees exceeding 7% must be approved by management.

The appraiser must state the effect of value of any non-realty items included in a sale, such as closing costs paid by the seller or any subordination agreements with the property.

### **EFFECTIVE AGE**

When adjustments are made to the appraisal for the effective age, the appraiser must provide an explanation for the adjustments and the condition of the property.

### **ZONING**

Zoning of the property must constitute a legally permissible use of the land. The property must represent the highest and best use of the land. Non-conforming property must have the city zoning authority letter or an appraiser's addendum stating that it is a legal non-conforming use. Comparable must have the same zoning influence.

### **WELL AND SEPTIC**

We will not require a well and septic test unless required by the appraiser, there is evidence to suggest failure of the system or the purchase agreement requires an inspection. A well and septic inspection is required for areas where there are known water problems or for loans sent to investors other than Fannie Mae/Freddie Mac, such as JUMBOs, etc. The borrowers are required to sign a hold harmless letter for not having a well and septic certification, if applicable.

Purchase transactions for properties in Massachusetts will require a satisfactory sewerage system inspection only when the property has a private septic system. The private sewer system must pass a Title 5 inspection in Massachusetts.

### **SITE/VIEW ADJUSTMENTS**

The appraisal must include the actual size of the site and not a hypothetical portion of the site. For example, the appraiser may not appraise only 5 acres of an un-subdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel. For properties with larger than normal lots or considerable acreage that do not have comparable with the same type of lots or acreage, any excessive plus adjustments will be subtracted from the final value of the comparable and the new adjusted value will be used for loan-to-value calculations.

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We will only accept an electronically submitted PDF copy of the appraisal report. The document must have an electronically reproduced signature of the appraiser and the report must comply with the applicable requirements outlined in this section.

The appraiser's analysis of a property must take into consideration all factors that have an effect on value. To assure that this is done in the development of the sales comparison approach to value, we require the appraiser to analyze closed sales, contract sales, as well as current and expired listings of properties that are the most comparable to the subject property (although we require the appraiser to report only the comparables sales in the appraisal report). The appraiser should always include in the appraiser report or in an addendum any other information that Flagstar Bank will need to make a prudent underwriting decision. In arriving at the sales comparison approach to value, the appraiser must make appropriate adjustments. "Time" adjustments are acceptable, as long as they reflect the time elapsed between the contract date for the comparable sales and the effective date of the appraisal. These adjustments must be representative of the subject market and supported by market data that is reported in the appraisal report.

### **UTILITY REQUIREMENTS FOR REO PROPERTIES**

The appraiser must notate that all systems are fully operable at the time of inspection. If the water system has been winterized, the appraiser will need to state as such. If the water system has been winterized, water service will not be required to be turned on. If the water system has not been winterized, the water must be turned on and inspected to be in good working order. Electricity and Gas must always be turned on and observed to be working.

### **INDEPENDENT FEE APPRAISERS**

An eligible independent fee appraiser must be used. The appraiser cannot be selected by the buyer, seller, builder, developer, realtor, borrower or anyone else with an interest (financial or otherwise) in the loan transaction. Similarly, Flagstar Bank will not accept an appraisal provided by the buyer, seller, builder, developer, realtor, borrower or anyone else with an interest (financial or otherwise) in the loan transaction. Non-commissioned employees should be responsible for appraiser selection. All appraisals must be completed by a Flagstar Bank eligible appraiser. If the first appraiser on the report is not deemed eligible, we will accept the signature of a Flagstar Bank eligible supervisory appraiser, provided that appraiser did physically inspect the subject property and indicates so in the appropriate box. Supervisory appraisers must complete an interior inspection for appraisals requiring an interior inspection. Supervisory appraisers may only check that they inspected the exterior only if it is an exterior only report. Please confirm the appraiser is eligible with Flagstar prior to placing an appraisal order. Refer to *Appraiser Eligibility Guidelines*, [Doc. #4901](#) for details. Appraisers with licenses in multiple states can only be approved in contiguous states. Appraisers should not perform appraisals outside of their market area.

### **APPRAISALS THAT MUST BE PERFORMED BY A FLAGSTAR APPROVED NATIONAL APPRAISAL VENDOR**

For the following property types and loan scenarios, the appraisal must be ordered from a Flagstar approved appraisal management company. Property Inspection Waivers (PIW) will not be eligible regardless of AUS response. Refer to *Appraisal Management Companies*, [Doc. #4903](#). This guideline applies regardless of correspondents' appraiser independence compliance status. .

- All manufactured home properties
- All 3 to 4-Unit properties
- Additionally, certain loan products may require an approved appraisal management company appraisal – check the product description for details

- Any loan, conventional or government for any employee in the sales or loan production function of an originating branch or company.
- Cooperative Properties on any High-Balance programs

### APPRAISAL PORTABILITY

#### **ACCEPTING AN APPRAISAL FROM ANOTHER LENDER**

All requests to accept an appraisal that was ordered from another lender should be sent to [Appraisal.Review@Flagstar.com](mailto:Appraisal.Review@Flagstar.com).

We will only accept an appraisal if it was ordered through a Flagstar Bank approved Appraisal Management Company (AMC) unless the customer has been approved as an HVCC Compliant Lender. Refer to *AIR Compliance Questionnaire/Checklist, Doc. #3027* for application process details. For Correspondents who are approved as a HVCC Compliant Lender the appraisal can be from either the competing lenders AMC or one of Flagstar Banks approved AMC. Refer to *Appraisal Management Companies, Doc. #4903*.

- Underwriting will condition for a compliance certificate from original lender showing that the appraisal was ordered by the lender in a manner compliant with Fannie Mae and Freddie Mac Appraiser Independence requirements. We will only accept the certificate from the original lender. Flagstar will not accept the Appraiser Independence requirements compliance certificate directly from the customer.
- Appraisal Review will need to receive the appraisal from the AMC, or a competing lender to determine if it is compliant. Flagstar will not accept the appraisal directly from the customer.
- Upon receipt of the appraisal, and the Appraiser Independence Requirements compliance certificate from the lender, Appraisal Review will upload the appraisal for Underwriting to review and the customer will be notified by the underwriter.
- The appraiser must not appear on Flagstar's ineligible appraiser list.
- Appraisal must be submitted in a UCDP-ready MISMO 2.6 XML file. Key ID number or SSR will not be acceptable in lieu of XML file.

Under no circumstances, will Flagstar accept an appraisal transferred or uploaded to Flagstar by the loan originator or any employee of the originating lender.

The appraiser must not appear on Flagstar's ineligible appraiser list.

#### **TRANSFER APPRAISAL FROM FLAGSTAR TO ANOTHER LENDER**

Requests to have a conventional appraisal transferred to another lender should be sent to [UnderwritingSupport@Flagstar.com](mailto:UnderwritingSupport@Flagstar.com). Requests to have an FHA appraisal transferred to another lender should be sent to [GovernmentUW@Flagstar.com](mailto:GovernmentUW@Flagstar.com). Please submit the *FHA Case Number Transfer Request, Doc. #9352*, to request an FHA Case Number transfer to another lender.

When a customer requests that an appraisal ordered by Flagstar be transferred to another lender there may be a fee associated to the transfer depending on if it has been locked and if it has been submitted to underwriting. The table below explains the fee schedule as it corresponds to these events.

Flagstar will not "retype" an appraisal into another lender's name. The appraisal transfer letter consists of a summary documenting the appraisal's compliance with Appraiser Independence guidelines.



## Conventional Underwriting Guidelines

Loan/Lock Status	Release Fee
Not locked, not submitted to underwriting	\$0
Not locked, submitted to underwriting	\$250
Locked, not submitted to underwriting	Greater of Pair-off fee or \$250
Locked, submitted to underwriting	Greater of Pair-off fee or \$250
Loan denied in underwriting	\$0
Not locked, loan denied for Credit Application Incomplete	\$250
Locked, loan denied for Credit Application Incomplete	Greater of Pair-off fee or \$250

### CONDOMINIUMS

All condominium projects must be reviewed and approved by Flagstar's Condo Review Department unless done as a Limited or Streamlined Review. Flagstar Bank utilizes FNMA's Condominium Project Management (CPM) system for all project approvals.

#### ***FNMA LIMITED REVIEW AND FHLMC STREAMLINED REVIEW REQUIREMENTS***

Under the limited review option, the project or legal phase must be completed and the appraisal must not indicate any characteristics that would indicate the project is ineligible. New projects (FNMA Type R, FHLMC new projects) are not eligible for limited review. To be eligible for a limited or streamlined review, 90% of the units must be sold and control of the HOA must be turned over to the-unit owners. The underwriter's review of the project will need to cover any areas that affect its ability to make the warranties required for a limited project review. Loans eligible for a Property Inspection Waiver (PIW) must be accompanied by a condominium questionnaire.

Note: For transactions requiring Mortgage Insurance, investor property concentration should not exceed 30%. Exceptions may be considered on a case by case basis.

Projects not meeting any project review guidelines are not eligible for Limited or Streamlined Review.

#### ***DOCUMENTATION REQUIREMENTS***

A condominium questionnaire will not be required if the condominium is Flagstar approved or meets the below requirements. A condo questionnaire will be required if there is a Property Inspection Waiver (PIW). If a project appears as Denied on Flagstar Banks condominium list, the project is not eligible for limited review.

#### ***FNMA LIMITED REVIEW ELIGIBILITY FOR LOANS SUBMITTED TO DESKTOP UNDERWRITER***

Loans that receive an <i>Approve</i> response	Loan that do not receive an <i>Approve</i> response
Principal Residence: Up to 80% LTV/CLTV/HCLTV (75% LTV for FL properties)	Principal Residence: Up to 80% LTV/CLTV/HCLTV (75% LTV for FL properties)
Second Home: Up to 75% LTV/CLTV/HCLTV (70% LTV for Florida properties)	Second Home: Up to 75% LTV/CLTV/HCLTV (70% LTV for Florida properties)
Investment Property: Not eligible	Investment Property: Not eligible



## Conventional Underwriting Guidelines

### **FHLMC STREAMLINED REVIEW ELIGIBILITY FOR LOANS SUBMITTED TO LOAN PROSPECTOR**

Loans that receive an <b>Accept</b> response	Loan that do not receive an <b>Accept</b> response
Principal Residence: Up to 90% LTV/CLTV/HCLTV (75% LTV for FL properties)	Principal Residence: Up to 80% LTV/CLTV/HCLTV (75% LTV for FL properties)
Second Home: Up to 75% LTV/CLTV/HCLTV (70% LTV for Florida properties)	Second Home: Up to 75% LTV/CLTV/HCLTV (70% LTV for Florida properties)
Investment Property: Not eligible	Investment Property: Not eligible

### **FLORIDA LIMITED REVIEW**

Project Review LTV Limit Requirements for Established Attached Projects in Florida				
Property Type	Full Review	CPM Review	Limited Review	FHA Approved Projects
Principal Residence	80% (DU)	75%	75%	75%
	80% (Non-DU)			
Second Home	80%	70%	70%	70%
Investment Property	80%	Not eligible	Not eligible	Not eligible

### **SUBMISSION REQUIREMENTS**

Full Review requires the submission of the following items:

- Condominium Questionnaire
- Budget
- HOA insurance showing \$1,000,000 liability coverage
- Fidelity coverage for project over 20 units.
- Appraisal
- Recorded Declaration and Bylaws (only required for new projects)
- Balance Sheet

See *Condominium Submission Requirements*, [Doc. #3253](#) for more information on project approval.

### **STATE RESTRICTIONS**

New (Type R and Type T) projects in Nevada are not eligible. New Type R Florida projects must be Fannie Mae PERS approved.

Type R and Type T conversion projects are not eligible in Nevada. Acceptable new conversion projects are not eligible to be underwritten by any Delegated Channel. The LTV and CLTV for Type R conversion properties will be capped at 10% less than maximum financing for the loan product. For example, if the product allows 95% LTV/CLTV, condominium conversions will be capped at 85% LTV/CLTV.

A new gut rehabilitation conversion is when the building is brought down to the shell and all HVAC and electrical components have been replaced.

FL Condos over 80% LTV refer to the [MI Company Parameter Matrix](#)

### **ESTABLISHED (TYPE S) PROJECTS**

Projects Nevada must have the HOA turned over for 12 months to be eligible.

### **FNMA TYPE S/FHLMC ESTABLISHED PROJECTS**

- Control of the HOA has been turned over to the unit owner from the developer.
- The project must be 90% conveyed to unit purchasers.
- All common elements and amenities must be completed and not subject to additional phasing or add-ons.
  - 51% of the total units in the project must be conveyed to purchasers as principal residences or second homes. This is not required on primary residence/second home Class III condominium transactions.
- For FHLMC, multiple units purchased by one owner must count as one single sale when determining pre-sale requirements.
- Commercial property is allowed within a condominium project as long as the total commercial influence does not exceed 20%.
- For Type S conversions, a satisfactory engineer's report is required if the project has been converted in the in the most recent three years. It must comment favorably on sound transmission, the structural integrity of the project and the condition and remaining useful life of the major project components, such as heating and cooling systems, plumbing, electrical systems, elevators, boilers and roofs. The report must state the project is free of environmental hazards. An engineer's report is not required if a Limited or Streamlined Review is performed. All construction/rehab work must be complete.
- Project approvals are valid for 6 months from the date of review.

### **FNMA TYPE R / FHLMC NEW PROJECTS**

- New projects are projects in which less than 90% of the total units have been conveyed to the-unit purchasers and/or the HOA is still controlled by the developer. New projects also include projects that are not fully complete, such as proposed construction, new construction or the proposed or incomplete conversion of an existing building to a condominium.
- FNMA Pre-Sale Requirement
  - At least 51% of the total units in the project must have been conveyed (or must be under contract to be sold) to principal residence purchasers or second home purchasers. Or
  - For a specific phase (or phases) in a new project, at least 51% of the total units in the subject phase(s) considered together with all prior phases must have been conveyed (or must be under contract to be sold) to principal residence purchasers or second home purchasers.
- FHLMC Pre-Sale Requirement
  - At least 70% of the total units in the project must have been conveyed (or must be under contract to be sold) to principal residence purchasers or second home purchasers. Or
  - At least 70% of the total units in the subjects legal phase PLUS the total number of units in all prior legal phases in which the units have been offered for sale must be sold or under contract as a primary residence or second home.
- The legal phase must be 100% complete. All units must be constructed to the buyers preference stage.
- Projects containing units with less than 400 square feet must be PERS approved.
- Project approvals are valid for 6 months
- Please refer to the state restrictions for Type R Conversions

### **TYPE R (NEW PROJECTS) THAT REQUIRE FANNIE MAE (PERS/TYPE T) APPROVAL**

- Projects that are newly converted, non-gut rehabilitation must be FNMA (PERS) approved and are only eligible for delivery to Fannie Mae.
- Projects with units of less than 400 square feet.

- Please refer to the state restrictions for Type R Conversions

### **FNMA TYPE T CONDOMINIUM**

Type T projects are new condominium projects that are reviewed and approved by FNMA (PERS).

- Please refer to the state restrictions for Type R Conversions

### **FNMA SMALL CONDOMINIUM PROJECTS 2 TO 4-UNITS**

Small Condominium Projects are projects consisting of 2 to 4-Units. The requirements for eligibility are:

- The project must be covered by the types of hazard, flood and liability insurance required for condominium projects (\$1,000,000 liability coverage)
- The project's documentation must comply with FNMA and FHLMC legal requirements
- Each unit must be owned by a separate entity (the same individual, investor group, partnership or corporation)

<b>Pre-sale requirements for small projects</b>	
<b>Number of units</b>	<b>Number sold as owner occupied or second home</b>
2	1
3	2
4	3

### **CONDOMINIUM FLOOD INSURANCE**

Refer to *Flood Insurance*, [Doc. #4603](#) for coverage requirements.

Flagstar Bank's Condominium Review department must review all projects flood insurance policies.

### **CALIFORNIA CONDOMINIUM EARTHQUAKE INSURANCE**

Flagstar Bank does not require earthquake insurance for Fannie Mae or Freddie Mac warrantable projects.

### **LIABILITY INSURANCE**

Each project must have \$1,000,000 business liability insurance coverage with HOA named as the insured.

### **MASTER HAZARD INSURANCE**

Coverage must equal 100% of the insurable replacement cost of the project improvements, and the deductible cannot exceed 5% of the policy face amount. For all policy requirements please refer to Hazard Insurance Requirements, [Doc. #4602](#).

### **HO-6 INSURANCE**

The policy must show evidence of a "walls-in" coverage unless it can be documented that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that may have made to the unit. For all policy requirements please refer to Hazard Insurance Requirements, [Doc. #4602](#).

### ***FIDELITY (EMPLOYEE DISHONESTY) BOND INSURANCE***

Projects with over 20-Units must show evidence of the fidelity (employee dishonesty) bond coverage. The HOA must be named as the insured.

The HOA must carry Fidelity Bond insurance which covers the maximum funds that are in the custody of the HOA (or co-op corporation) or its management agent at any time while the policy is in force. A lesser amount of coverage (the sum of three months of assessments on all units in the project) is acceptable if the project's legal documents require the homeowners association and any management company to adhere to one or more of the following financial controls:

- Separate bank accounts are maintained for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the homeowners' association (or co-op corporation).
- The management company maintains separate records and bank accounts for each homeowners' association (or co-op corporation) that uses its services, and the management company does not have the authority to draw checks on, or transfer funds from, the homeowners' association's (or co-op corporation's) reserve account.
- Two members of the Board of Directors must sign any checks written on the reserve account.

Even then, the fidelity insurance coverage must equal at least the sum of three months of assessments on all units in the project.

### ***INELIGIBLE PROJECTS (PROJECT CONTAINING ANY OF THE FOLLOWING CHARACTERISTICS ARE NOT ELIGIBLE FOR FULL, LIMITED OR STREAMLINE REVIEW)***

- Mandatory Rental Pool
- Bell Captain, luggage service
- On site rental agency or check in desk
- Room Service
- Central Telephone System
- Central Key System
- The overall project cannot include a hotel or similar type of entity, and may not be a project with fragmented or segmented ownership, or a project with fractured interest.
- Condominium projects that include weekly and/or daily rentals are not acceptable if the HOA is involved in rental of units.
- The project has Blackout dates restricting the owner's use.
- Timeshare or segmented ownership projects
- Houseboat projects
- Multi-dwelling unit condominiums. Projects that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and mortgage
- Condominium projects that represent a legal, but non-conforming, use of land, if zoning regulations prohibit rebuilding the improvements in the event of partial or full destruction
- Any project where the owner's association pays the property taxes for the individual units.
- Common Interest Apartments or "Own Your Owns"
- Projects without an established HOA.
- Projects in which more than 20% of the total square footage of the project is used for non-residential purposes.
- Projects in which more than 20% of income is from sources other than dues and assessments
- A project for which the homeowners association or developer if the project has not been turned over to the unit owners, is a party to current litigation, arbitration, mediation or other dispute

resolution process and the reason for the dispute involves the safety, structural soundness or habitability of the project.

- Flagstar will not lend in projects where its exposure exceeds 20% of the units in projects with more than 4-Units. For 2 to 4-Unit projects, Flagstar will lend on more than unit on a case by case basis.
- New projects where the seller is offering sale/financing structures in excess of Investors eligibility policies for individual mortgage loans. These excessive structures include, but shall not be limited to, builder/developer contributions, sales concessions, HOA or principal and interest payment abatements and/or contributions not disclosed on the HUD-1 Settlement Statement.
- Projects where a single entity (the same individual, investor group, partnership or corporation) owns more than 10% of the total units in the project. For 2 to 4-Unit projects no single entity (the same individual, investor group, partnership or corporation) may own more than one unit.
- Project that have a recreation lease for any project amenities.
- Projects with less than 30% owner occupancy.
- Projects in which an auction has taken place to sell original units. Projects must qualify for a Type S Review.

Hotel/Resort Projects: any project that is operated as a hotel/resort, even though the units are owned individually. While there is no single factor that can be used to determine whether a project should be classified as a hotel/resort, Flagstar Bank will consider, among other things, the existence of hotel/resort-type services, such as the presence of a registration desk, the use of daily occupancy rates, the availability of food and telephone services, provisions for daily cleaning services and advertisement of hotel/resort-type services. If the units are subject to rental pooling agreements that require the-unit owners to either rent their units or give a management firm control over the occupancy of the units or the project has the words Hotel, Motel or Resort in their names, the project is most likely operating as a hotel or motel. (Typical "second home" projects in which units may be rented on a short-term basis are not necessarily hotels).

If project is operated as a hotel, resort or other type of hospitality entity or that it has any of the characteristics or offers any of the services described below, the project is a Hotel/Resort Project and the project is ineligible. The characteristics or services of a Hotel/Resort Project include but are not limited to any of the following:

- The project operates or advertises itself as a hotel, resort, inn, motel, lodge or similar type of hospitality entity; includes such terms in its name; has a web site that presents itself as a hotel, resort, motel, inn, lodge or similar type of hospitality entity; has units available or advertised for rent through a web site that offers travel services; or is located at the same address or within the same project as a hotel, resort, motel, inn, lodge or similar type of hospitality entity.
- The project has an affiliation or agreement with a hotel, resort, motel, inn, lodge or similar type of hospitality entity and the entity offers rental management or registration services for any unit owner of a unit within the project.
- The unit owners of the project share Common Elements (including Amenities) with a hotel, resort, motel, inn, lodge or similar type of hospitality entity or the unit owners pay additional fees for the use of such Common Elements if the unit owner is not part of a rental-management agreement with an entity associated with the project.
- The project is a conversion of a hotel, resort, motel, inn, lodge or similar type of hospitality entity.
- The project has characteristics or services typically associated with a hotel, resort, motel, inn, lodge or similar type of hospitality entity. Examples include, but are not limited to, the following:
  - Access to individual units is controlled through a centralized key system

## Conventional Underwriting Guidelines

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- There are restrictions on interior decorating or furnishings or the units are sold "fully furnished," or the purchasers must choose from a list of "approved" furniture, floor and wall coverings for the units
- Units have interior doors that adjoin other units
- Units contain lockable storage closets, cabinets, safes or mini-bars
- Room service or food and beverage services are available to unit owners
- Signage is present indicating whether there are vacancies
- The unit owner's ability to occupy the unit is restricted, whether the restriction is due to zoning or to the existence of a rental-management agreement between a unit owner and an entity associated with the project. Examples of an entity associated with the project include but are not limited to the developer, an affiliate of or successor to the developer or a hospitality entity associated with the project.
- The unit ownership is characterized as an investment opportunity and offers a rental split with an entity within the project or associated with the project, whether or not the project has documents on file with the U.S. Securities and Exchange Commission or comparable State agency.

Please refer to the *Condo Hotel Evaluation Point Scale*, [Doc. #3260](#) for assistance in determining if project is eligible. The project must still be reviewed and approved by the Condo Review Department.

### **ADDITIONAL CONDOMINIUM WARRANTIES**

- Project or legal phase is physically completed including all units, common areas, amenities and facilities.
- No single entity (the same individual, investor group, partnership or corporation) owns more than 10% of the total number of units in the project.
- No more than 15% of the unit owners are more than 30 days delinquent in payment of homeowners' dues or assessments.
- Leasehold projects must meet agency guidelines. Projects that are held in a partial fee simple, part leasehold manner are unacceptable. See the [Leaseholds](#) section for more information.
- Project Budgets must meet the following criteria:
  - The budget must be consistent with the nature of the project.
  - The budget must provide for the annual funding of replacement reserves for capital expenditures and deferred maintenance equal to at 10% of the budgeted income of the HOA. The budget must reflect a specific line item for reserve funding. The 10% reserve amount is required regardless of the amount of money the HOA has currently collected for reserve funding. The budget must also provide for the adequate funding for insurance deductible amounts.
- No more than six months of regular common expense assessments may have priority over Fannie Mae's or Freddie Mac's mortgage lien. A limited amount of regular common expense assessments (typically known as homeowner association or HOA fees) may have priority over Fannie Mae's or Freddie M Mac's mortgage lien for mortgage loans secured by units in a condo project. This applies if the condo is located in a jurisdiction that has enacted:
  - The Uniform Condominium Act
  - The Uniform Common Interest Ownership Act
  - A similar statute that provides for unpaid assessments to have priority over first mortgage liens

### **COOPERATIVES**

A cooperative unit is defined as a residential or mixed-use building or project where a corporation or trust holds title to the property. The cooperative corporation sells shares of stock representing the value of a

single unit to individuals who receive a proprietary lease or an occupancy agreement as evidence of his or her right to possess a particular unit.

The cooperative corporation owns the project land, dwelling units and common elements (for example, halls and lobbies) and governs the shareholders and subleases through a cooperative board.

The cooperative corporation is the legal owner of the property and is responsible for management of the project (usually by a board of directors) and the project expenses (such as real estate taxes, hazard insurance and other common expenses). The cooperative corporation usually finances the project by obtaining a blanket or underlying mortgage on the project based on a rental value. Therefore, the corporation is also responsible for meeting the mortgage debt obligation as part of the common expenses of the project.

The cooperative corporation is owned jointly by the tenant-stockholders by virtue of their ownership of stock, share or membership certificates in the corporation. Tenant-stockholders receive exclusive rights to occupy specific units.

In order for cooperative share loans to be eligible, the cooperative project in which the secured units are located must qualify as a "cooperative housing corporation" under Section 216 of the Internal Revenue Service Code. The cooperative corporation must provide a statement about the project's compliance with Section 216 of the Code.

### **ELIGIBILITY REQUIREMENTS**

- Owner-occupied primary residence.
- Maximum 95% LTV (refer to the product and/or program for eligibility). All loans must receive an Approve/Eligible response from Desktop Underwriter.
- Second Home
- Maximum 80% LTV (refer to the product and/or program for eligibility). All loans must receive an Approve/Eligible response from Desktop Underwriter
- Loans may not have subordinate financing.
- All projects must contain a minimum of 10-Units.
- States eligible for cooperative lending are: New York and New Jersey.
- Project must qualify as a Type 1 Cooperative

### **TYPE 1 COOPERATIVE**

- A Type 1 project is an established cooperative project in which a lender is providing financing on a spot-loan basis. At least 80% of the total units in the project must have been conveyed to principal-residence purchasers.
- At least 65% of the total stock or share ownership in the project must have been sold and conveyed to owner-occupied primary residences. This only applies to the five boroughs located within New York City and the following NY counties Nassau, Suffolk, Rockland and Westchester. Any coop located outside of the designated areas require 80% of the total shares to be conveyed to owner occupied primary residences.
- The project must be located in an area with a demonstrated market acceptance for the cooperative form of ownership.
- The project may not be an ineligible project.
- The project cannot be subject to additional phasing or annexation.
- The construction of the project (or all rehabilitation work involved in the conversion of an existing building to a cooperative project) must be complete, except that minor items that do not affect

## Conventional Underwriting Guidelines

livability may be incomplete as long as their completion is assured by the escrow of sufficient funds.

- No more than 10% of the stock or shares in the cooperative corporation and the related occupancy rights may be owned by any single entity (including the same individual, investor group, partnership or corporation, excluding the sponsor).
  - The sponsor may own up to 30% of the total shares if the units are rent stabilized, rent controlled, regulated rent or we must be able to verify the sponsor's intent to sell via their website or a combination of the two. This only applies to the five boroughs located within New York City and the following NY counties Nassau, Suffolk, Rockland and Westchester. Please review the below chart for the required documentation.

Required Documentation			
Sponsor's Financial Disclosure Requirements	Sponsor owned units are rent stabilized, rent controlled or it has been documented via the sponsor's website the sponsor's intent to sell	Sponsor owned units are a combination of rent stabilized, rent controlled and market rent	All sponsored owned units are rent stabilized, rent controlled or rent regulated
Attorney General Amendment filed in the past 12 months <sup>5</sup>	X		
Attorney General Amendment filed in the past 24 months <sup>5</sup>		X	
<i>Sponsor's financial Disclosure Statement, Doc. #3259</i>		X	X

5. The attorney General Amendment must document the following:
  - The sponsor is current on all financial obligations under the offering plan related to the project
  - The sponsor is current on all financial obligations relating to any other project in which the sponsor owns or holds more than 10% of the units
  - The sponsor has not pledged any of the shares of the co-op project as security for any loan other than to secure, in whole or in part, the financing obtained by the sponsor to acquire the co-op project.
  
- The project's operating budget must be consistent with the nature of the project and provide for adequate replacement services.
- The co-op should project sufficient income to cover operating expenses and capital expenditures. The co-op should have a plan to fund reserves for future repair and replace of major components or have sufficiently funded reserve accounts.
- The project must have a good financial record, with no more than 10% of the owners being more than 1-month delinquent in the payment of their financial obligations to the cooperative corporation.
- Any blanket mortgage for the project must not be an adjustable rate mortgage (ARM) with a remaining term of less than 3 years or a balloon mortgage with a remaining term of less than 6

months. This only applies to the five boroughs located within New York City and the following NY counties Nassau, Suffolk, Rockland and Westchester. The project may not be the recipient of any subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next 3 years.

- The proprietary lease or occupancy agreement between the tenant-stock holder and the coop corporation must give the tenant-stock holder the right to occupy the unit for a period that extends to at least the maturity date of the share loan.
- The project must be covered by all required insurance (fidelity bond, hazard, liability, rent loss and flood, if applicable).
- No more than 20% of the units in the project will be financed by Flagstar Bank.
- Legal documents must show that the cooperative corporation is a valid entity authorized to carry out its independent purposes and must be in compliance with all applicable state and local laws. The cooperative documents must provide the following:
  - Terms that sufficiently explain the manner in which the corporation is managed and controlled.
  - A legally permissible procedure for handling any losses or proceeds from condemnation, destruction, or liquidation of all or a part of the project or from termination of the project.

### **INELIGIBLE PROJECTS**

- Land-Home Cooperatives. A property located in a community where the individual homeowners own the dwelling and the cooperative corporation owns only the land and the common areas in the project.
- Projects located in New Jersey with a flip a tax.
- Timeshare or segmented ownership projects.
- Houseboat projects.
- Multi-dwelling unit projects that permit an owner to hold title to more than 1 dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and mortgage.
- Projects with less than 10-Units.
- Projects that represent a legal, but non-conforming, use of land, if zoning regulations prohibit rebuilding the improvements in the event of partial or full destruction.
- Projects with more than 20% commercial space.
- A tax-sheltered syndicate leasing to a cooperative or "leasing" cooperatives: Projects that involve the leasing of the land and the improvements to the cooperative corporation, even if the cooperative corporation owns part of the building.
- Projects that are subject to leasehold estate.
- Limited Equity Cooperatives: Projects in which the cooperative corporation places a limit on the amount of return that can be received when stock or share are sold.
- Projects with units that are subject to resale restrictions that could have an adverse effect on the security of the cooperative share loan.
- Projects in which the developer or sponsor (the person or corporation that takes on the responsibility of managing the project, usually a board of directors) has an ownership interest or other rights in the project real estate or facilities (other than the interest or rights it has in relation to unsold units)
- Any project where the owner's association pays the property taxes for the individual units.
- Manufactured Housing Units

The pro rata share allowed is up to and including 35%. Pro Rata Share is the proportion of the project debt service on the underlying or blanket mortgage that is attributable to a specific-unit. See example.

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Underlying Mortgage (a)	\$8,900,000
Shares Outstanding (b)	100,000
Pro Rata Value Per Share	\$89 (a/b)
1-Bedroom Unit	240 Shares
Appraised Equity Interest	\$52,000
\$89 x 240 = \$21,360	Pro Rata Share of Underlying Mortgage
\$21,360	Pro Rata Share of Underlying Mortgage
\$52,000	Appraised Equity Interest
\$73,360	Encumbered Value

The following computation determines the percentage of the pro rata share of the underlying mortgage to the encumbered value:

$$\$21,360 / \$76,360 = 29\% \text{ (In this example, the pro rata share meets the requirement)}$$

Encumbered value is determined by adding the pro rata share of the underlying mortgage to the appraised equity interest of the unit.

### DOCUMENTATION REQUIREMENTS

Documentation Requirement for Type 1 Projects	
Cooperative Questionnaire (fully completed and signed)	Prior to Closing
Cooperative Interest Appraisal (2090)	Prior to Closing
The current annual operating budget	Prior to Closing
Most recent 2 years audited financial statements, with the most recent year being audited within 120 days of the co-op corporation's fiscal year-end	Prior to Closing
Proprietary lease	At Closing
Recognition agreement (legal requirements)	At Closing
All required insurance declaration pages	At Closing
UCC-1 Filing	At Closing

### APPRAISAL

A full URAR, Individual Cooperative Interest Appraisal Report Form 2090 is required on all cooperatives. (Appraisal Form 2095 is not acceptable). The appraiser must provide at least one recent comparable within the same project and one from a competing cooperative project. The appraisal should indicate that the project is located in an area with a demonstrated market acceptance for the cooperative form of ownership (the degree of acceptance is generally reflected in the availability of information on similar comparable sales of cooperative units in the market area).

### FLIP TAXES –NEW YORK ONLY

The cooperative corporation may impose a fee upon the transfer (sale) of a unit. This fee is either a certain percentage of the profits or a percentage of the gross sales price. Flip tax is paid by either the seller or purchaser of the unit. The purpose of the flip tax is to build up reserve funds for the cooperative. All Cooperative projects must be reviewed on a case by case basis. The amount of the flip tax cannot exceed 5% of the value of the property (calculated as the lesser of appraised value or sales price).

### **LIABILITY INSURANCE**

Each project must have \$1,000,000 business liability insurance coverage with HOA named as the insured. Projects with an elevator must have \$1,000,000 per occurrence plus \$2,000,000 aggregate.

### **MASTER HAZARD INSURANCE**

Coverage must equal 100% of the insurable replacement cost of the project improvements, and the deductible cannot exceed 5% of the policy face amount. For all policy requirements please refer to *Hazard Insurance Requirements*, [Doc. #4602](#).

### **FIDELITY (EMPLOYEE DISHONESTY) BOND INSURANCE**

Projects with over 20-Units must show evidence of the fidelity (employee dishonesty) bond coverage. The HOA must be named as the insured.

The HOA must carry Fidelity Bond insurance which covers the maximum funds that are in the custody of the HOA (or co-op corporation) or its management agent at any time while the policy is in force. A lesser amount of coverage (the sum of three months of assessments on all units in the project) is acceptable if the project's legal documents require the homeowners association and any management company to adhere to one or more of the following financial controls:

- Separate bank accounts are maintained for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the homeowners' association (or co-op corporation).
- The management company maintains separate records and bank accounts for each homeowners' association (or co-op corporation) that uses its services, and the management company does not have the authority to draw checks on, or transfer funds from, the homeowners' association's (or co-op corporation's) reserve account.
- Two members of the Board of Directors must sign any checks written on the reserve account.

Even then, the fidelity insurance coverage must equal at least the sum of three months of assessments on all units in the project.

### **MORTGAGE INSURANCE**

Mortgage Insurance is only available through MGIC.

### **CLOSING**

Closing and closing document preparation must be coordinated and scheduled with one of Flagstar Banks Approved NY Settlement Agents for Cooperatives as listed on *NY Approved Settlement Agents for Cooperatives*, [Doc. #4641](#).

### **DEED RESTRICTED PROPERTIES**

Deed restrictions or resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease agreement or other instrument executed by or on behalf of the owner of the land. Resale restrictions may limit the use of all or part of the land to occupancy by persons or families of low-income or moderate-income or on the basis of age (senior communities must comply with applicable law), or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income borrowers. The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions. The resale restrictions are binding on current and subsequent property owners, and remain in effect until they are formally removed or modified,

or terminate in accordance with their terms (such as at a foreclosure sale or upon acceptance of a deed-in-lieu of foreclosure).

### ***REVIEW OF PROGRAM TERMS AND CONDITIONS***

Flagstar Bank must review the terms and conditions of the affordable housing program, including any documents that describe the resale restrictions.

### ***ELIGIBLE SUBSIDY PROVIDERS***

Eligible subsidy providers, or sponsors, of resale restrictions must be nonprofit organizations, churches, employers, universities, municipalities (including state, county, or local housing agencies), or entities that are otherwise administering government sponsored, federal, state, or local subsidy programs. The subsidy provider must have established procedures for screening and processing applicants. The procedures may not be administered by the developer.

### ***ELIGIBLE BORROWERS***

Eligible borrowers must satisfy the specific eligibility criteria and resale restrictions established by the subsidy provider.

### ***ELIGIBLE PROPERTIES***

Properties must be secured by one-unit properties, including eligible condominium projects and planned unit developments (PUDs), or two-unit properties. The property must be an owner-occupied principal residence. Mortgages secured by manufactured homes, cooperative projects, and three-unit or four-unit properties are not eligible.

### ***TITLE SEARCH***

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

### ***DEFAULT REMEDIES***

The presence of resale restrictions must not impair Flagstar Bank's legal rights to cure a default under the mortgage terms, to foreclose on the mortgage, or to otherwise protect its interests under the mortgage. The subsidy provider also may have rights to remedy a borrower default.

### ***RIGHTS TO INSURANCE SETTLEMENTS AND CONDEMNATION PROCEEDS***

Flagstar Bank must have first claim to insurance settlements or condemnation proceeds.

### ***ALLOWABLE RESALE RESTRICTIONS***

Mortgages that are subject to one or more of the following types of resale restrictions are eligible (although some restrictions are likely to occur only in combination with others):

- Income limits,
- Age limits (senior communities must comply with applicable laws),
- Purchasers must be employed by the subsidy provider,
- Principal residence requirements,
- First-time homebuyer requirements as designated by the subsidy provider,
- Properties that are "group homes" or that are principally used to serve disabled residents in compliance with local law, and
- Resale price limits.

### ***DURATION OF RESALE RESTRICTIONS***

#### **Fannie Mae**

Fannie Mae has no restriction on the length of the period in which resale restrictions remain in place on the property. If the resale restrictions survive foreclosure, the resale restrictions cannot impair the servicer's ability to foreclose on the restricted property.

If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu of foreclosure. If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.

#### **Freddie Mac**

In the event of foreclosure or deed-in-lieu of foreclosure, any resale restrictions must cease to be effective for the mortgagee and subsequent purchasers of the property.

### ***CALCULATION OF LOAN-TO-VALUE RATIOS***

The lesser of the sales price or appraised value of the property with resale restrictions must be used when calculating the LTV ratio.

### ***APPRAISING PROPERTIES SUBJECT TO RESALE RESTRICTIONS***

In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparables with similar restrictions. The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

### ***RIGHT OF FIRST REFUSAL OR OPTION TO PURCHASE***

The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default or the property is in foreclosure. The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions. The subsidy provider must exercise its right of first refusal or option to purchase the property within 90 days of receiving notification of the borrower default or the property foreclosure. The option to purchase the property must not be less than the lower of the current market value or resale restricted value. Options to purchase the property for the balance owed on the first mortgage are not eligible.

### ***NOTIFICATION TO THIRD PARTIES***

We will purchase mortgages when the resale restrictions require Flagstar Bank to notify a third party when the property is in foreclosure. Properties that require Flagstar Bank to notify a third party if the borrower is delinquent are not eligible. The servicer must ensure that proper notification is provided, as required in the provisions of the resale restrictions.

### ***MORTGAGE INSURANCE***

If a mortgage is subject to resale restrictions that survive foreclosure or deed-in-lieu of foreclosure and mortgage insurance is required, the lender must first contact its mortgage insurance provider and obtain confirmation that the mortgage insurance provider is willing, on a program basis, to insure these mortgages under the lender's master primary policy.

### **LOAN REFINANCES**

The subsidy provider may permit borrowers to refinance their mortgage and to take cash out of the transaction. However, the resale restrictions may limit the cash out amount in order to protect the subsidy invested in the property. Documentation must be provided to evidence the subsidy provider has approved the refinance transaction and should ensure that the cash out amount complies with the provisions of the specific resale restrictions.

### **SPECIAL FEATURE CODES**

Use Special Feature Code 631 for mortgages secured by properties with resale restrictions that survive foreclosure or deed-in-lieu of foreclosure.

No special feature code is required when delivering mortgages secured by properties with resale restrictions that terminate automatically upon foreclosure.

### **ENVIRONMENT HAZARD**

Environmental Risk Exposures, such as gas tanks, railroad tracks, high tension wires, UFFI, industrial areas, Radon, mold or any other risk exposure. We will only accept properties with the above characteristics that meet the following requirements:

1. If a property inspection by the appraiser discloses a high potential for environmental risk, Flagstar Bank may require a Phase I Environmental Risk Report before determining a property's eligibility. A loan is likely to be conditioned for a Phase I Environmental Risk Report if the following indicators are present:
  - a. Properties that include or are close to an existing or former gas site
  - b. Properties that have served as or are close to a refuse or waste disposal site
  - c. Properties where the past uses or the surrounding uses include the storage or usage of hazardous or toxic substances
  - d. Properties suspected of containing asbestos material that is or may be easily friable (easily crumbled or crushed to powder and capable of being absorbed in the environment)
  - e. Properties where emanation of radon gas from the soil may result in detrimental health effects to the building occupants
  - f. Properties where there are known hazardous conditions on or in the property's immediate vicinity where Super Fund sites exist within a 1 mile radius; where the site is in close proximity to oil and gas production; where there is asbestos within the building structure that may have an effect on marketability; where the site is a corner lot property and is known to have been previously used as a gas station locale; or where the historic use of the property prior to its residential zoning is cause for concern.
  - g. Properties that show evidence of mold must have the mold remediated by a certified firm. After the mold has been remediated, a satisfactory inspection must be provided.

An approved environmental risk auditor must prepare the environmental risk report and Flagstar Bank must show as the client on the risk report.

2. A property may not be approvable due to environmental factors including, but not limited to:
  - a. Presence of a sanitary landfill or other solid hazardous or municipal waste disposal site on the property
  - b. Presence of friable asbestos or substantial amount of non-friable asbestos on the property
  - c. Evidence of spills or soil or ground water contamination on or around the property
  - d. Radon levels above acceptable standards on the property that can only be corrected through large capital improvements

## Conventional Underwriting Guidelines

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- e. Conditions that represent violations of applicable local, state or federal environmental or public health statutes and laws on or near the property
- f. The property is currently the subject of environmental litigation or administrative action from private parties or public officials or the property is on a federal, state or local environmental hazard list.
- g. There must not be any evidence of leakage on gas tank. If the property has a well, we will require satisfactory well certification.

All comparables used should have same characteristics (i.e. gas tank, railroad tracks, etc.). The appraiser must state this is common to the area and has no adverse effect on marketability.

### FLOOD INSURANCE

Refer to *Flood Insurance*, [Doc. #4603](#) for additional information.

### HAZARD INSURANCE

Property insurance for home mortgages must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage should be of the type that provides for claims to be settled on a replacement cost basis.

We will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, riots, civil disturbances, aircraft, vehicles, smoke or any other perils that are normally included under an extended coverage endorsement. Damage from earthquakes, floods and mudslides may be excluded from the policy coverage.

Policies cannot include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

The borrower's deductible does not exceed 5% of the face value of the policy.

For information regarding acceptable amounts of coverage, refer to *Hazard Insurance Requirements*, [Doc. #4602](#). Properties located in Lava Zones 1 or 2 are ineligible.

### INELIGIBLE PROPERTIES

#### **CHINESE DRYWALL**

If Flagstar Bank is made aware that Chinese drywall is currently present or previously existed in the home, we will not approve, fund or purchase the loan, regardless of any drywall removal and/or efforts to cure the damage.

Properties with Chinese Drywall may exhibit any of the following characteristics:

- Corrosion on metal fixtures, wires or plumbing
- Sulfur odor in home
- Wall board with Made in China or Knauf markings

### LEASEHOLDS

An attorney's opinion letter stating all warranties are met will be required on all loans unless on the *Flagstar Approved Leaseholds*, [Doc. #3247](#) list.

### **FANNIE MAE LEASEHOLD REQUIREMENTS**

- The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.
- The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien and must be insured by the lender's title policy.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sub-lessor.
- The term of the leasehold estate must run for at least 5 years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower, a homeowners' association or a co-op corporation.
- All lease rents, other payments or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged and sublet an unlimited number of times by the lessee either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee or sub-lessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that the borrower will pay taxes, insurance and homeowners' association dues related to the land in addition to those he or she is paying on the improvements.
- The lease must be valid, in good standing and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must be serviced by either the lender that delivers the mortgage to Fannie Mae or the servicer it designates to service the mortgage.
- The lease must provide lenders with the right to receive a minimum of 30 days notice of any default by the borrower and the option to either cure the default or take over the borrower's rights under the lease.
- The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land.
- If the option is included, the purchase must be at the borrower's sole option and there can be no time limit within which the option must be exercised.

### **FREDDIE MAC REQUIREMENTS**

- The leasehold Mortgage constitutes an interest in real estate
- The lease and any sublease (including all amendments) are recorded in the appropriate land records. A memorandum of lease or sublease may be recorded in lieu of the complete lease or sublease.
- The lease is in full force and effect and is binding and enforceable against the lessor
- If the lessor's fee simple interest in the land is subject to any encumbrances or liens, the fee simple lien-holder has executed and recorded a non-disturbance and attornment agreement that contains the following provisions:
  - The lease or any of the rights of the lessee under the lease will not be terminated or otherwise affected by enforcement of any lien or other rights granted to the fee simple lien-holder

## Conventional Underwriting Guidelines

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- The rights of the leasehold mortgagee will not be terminated or otherwise affected by enforcement of any lien or rights granted to the fee simple lien-holder
- The fee simple lien-holder will not name the lessee or the leasehold mortgagee as a party defendant in any action to enforce its lien
- If the fee simple lien-holder forecloses on its lien, the lease will continue in full force and effect as a direct lease between the fee simple lien-holder and the lessee or, if applicable, the leasehold mortgagee
- The fee simple lien-holder will accept the attornment of the lessee
- The lien of the fee simple lien-holder on the real property does not extend to the improvements and fixtures, real or personal property owned by the lessee
- The lessee and the leasehold mortgagee have no liability or obligation to the fee simple lien-holder in connection with its lien on the fee simple interest
- Condemnation and insurance proceeds awarded to the lessor will be used for the restoration, repair or replacement of the property damaged or taken by condemnation if economically feasible

The non-disturbance provisions listed above may be contingent on the lease being in full force and effect and the lessee (or the leasehold mortgagee if it has exercised its rights under the lease and the leasehold mortgage) not being in default in the payment of rent, taxes or property insurance.

If the lease contains any provisions requiring the lessee to agree to the subordination of the lease to liens or encumbrances on the fee simple interest, these provisions must be conditioned on the lessee and the leasehold mortgagee receiving a recorded non-disturbance and attornment agreement that contains the provisions stated above and is executed by the fee simple lien-holder.

- The lease is a lease of the fee or a sublease executed by both the fee owner and the sub-lessor. If the lease is a sublease, it must contain a non-disturbance and attornment agreement
- The use of leasehold estates for residential properties is an accepted practice in the area where the Mortgaged Premises are located and such properties are readily marketable
- The instrument creating the lease, sublease or conveyance reserving ground rents is in a form commonly acceptable to private institutional investors in the area where the Mortgaged Premises are located and contains provisions consistent with Section 41.1 of this Guide
- The original term of the lease or any exercised option to renew the lease or any renewal options that are enforceable by the leasehold mortgagee, whichever is applicable, does not terminate earlier than five years after the maturity date of the Mortgage
- The lease does not contain provisions for termination in the event of damage to or destruction of the Mortgaged Premises so long as the leasehold Mortgage exists
- For sub-leasehold Mortgages, the amount of the sublease payments is at least equal to the amount of the lease payments. The sublease payments are due no less frequently than the lease payments

### Required Lease provisions

- Permit mortgaging of the leasehold (or sub-leasehold) estate
- Permit assignments of the leasehold (or sub-leasehold) estate, including any improvements on the leasehold estate, without the lessor's consent; however, if the leasehold is in a restricted community, including but not limited to communities restricted to residents of certain ages or income, the lease must require that the assignee/lessee satisfy those restrictions.
- The lease may permit the lessor to review and consent to or deny a proposed assignee/lessee based on whether the proposed assignee/lessee satisfies the creditworthiness requirements of Freddie Mac or other secondary market investors. The

## Conventional Underwriting Guidelines

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- lessor will have 5 business days after receipt of the application to deny the assignee/lessee. The lease may prohibit the lessee from leasing or subleasing or renting the leasehold estate; however, in the event of foreclosure or deed-in-lieu of foreclosure, any such provision must cease to be effective for the mortgagee and subsequent purchasers of the property.
- Provide for release of an assigning lessee (or sub-lessee).
  - Permit the leasehold Mortgage security to be insured under a hazard insurance policy.
  - Provide for payment of hazard insurance proceeds to the leasehold mortgagee or insurance trustee.
  - Contain the following provisions governing increases in the basic rent and amounts due under the lease:
    - Basic Rent
      - Permit an increase in the basic rent during the term of the Mortgage and within five years after the maturity date of the Mortgage only if the increase is a sum certain amount at a specified date or time interval. During this period, basic rent increases based on the cost of living index or other indices or reappraisal are acceptable if the amount of such increases is subject to an annual maximum limitation.
    - Taxes, Insurance and Utilities
      - Increases in amounts due under the lease for taxes, insurance and utilities on the leasehold estate, if collected and paid by the lessor and taxes, insurance and utilities related to the common areas and facilities in the ground lease community are permitted if:
        - The increase is determined in the same manner as basic rent, including a maximum limitation
        - The increase is based on the verifiable increase in such items imposed by third parties
        - The lease provides for the lessee to obtain documentation of the amount paid to third parties for taxes, insurance and utilities
    - Use Fees and Operating Expenses
      - Increases for use fees and operating expenses for the common areas, facilities and services in the ground lease community may not exceed the cost of living index
  - Provide that in order for a notice of lessee's default to be valid, the lessor must have sent written notice of the lessee's default to the leasehold mortgagee
  - Provide for the right of the leasehold mortgagee, in its sole discretion, to cure a default for the lessee's (or sub-lessee, if applicable) account within the time permitted to lessee plus reasonable additional time
  - Provide for no termination for non-monetary default as long as no default in rent exists, except for a court-ordered termination. In the event of a court-ordered termination, the lease must provide for the lease to continue in effect and any improvements to remain on the leasehold estate as long as there is no default in rent, until the completion of the foreclosure or deed-in-lieu of foreclosure or other loss mitigation action with the borrower. In addition, the lease must provide for a new lease of the same priority to be given to the leasehold mortgagee or its designee, in the event the lease terminates because of a court ordered termination. The lessor must provide a title endorsement insuring that the new lease is of the same priority and that the lien on the leasehold estate is a first lien.
    - For purposes of this paragraph, "rent" includes basic rent, other amounts due under the ground lease for such items as taxes, insurance and utilities on the leasehold estate, if collected and paid by the lessor and any other use fees and operating expenses to the extent such charges are necessary for the maintenance and preservation of the common areas and community facilities.

## Conventional Underwriting Guidelines

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- Provide that in the event of the bankruptcy of the lessor or the lessee, the lessee must notify the leasehold mortgagee and take, in a timely manner, all action necessary to assume the unexpired term and any renewal options of the lease.
- Provide that in case of partial taking, the lessee (or sub-lessee, if applicable) will rebuild and restore the improvements on the mortgaged Premises, unless the leasehold mortgagee consents to the distribution of the proceeds instead. (The proceeds must be applied first towards reduction of the leasehold mortgage debt.)
- Provide for protection of the mortgagee's interests in the event of a property condemnation
- Provide for the leasehold mortgagee's right to acquire the lease in its own name or in the name of a nominee upon foreclosure or assignment in lieu of foreclosure
- Provide for the leasehold mortgagee's right to exercise any renewal options that may exist
- Provide that the leasehold mortgagee must approve:
  - Any partition, subdivision or modification of the ground lease community and the leasehold estate
  - Any surrender, abandonment or termination of the leasehold estate or the ground lease community
  - The termination or cancellation of the lease or any action that has the effect of terminating the lease and
  - Any amendments to the lease that affect the rights of the leasehold mortgagee.
- Provide that there shall be no merger of the fee interest and leasehold interest in the event the same person or entity acquires both interests

### LIFE ESTATES

Properties with Life Estate rights are not eligible. Any properties titled with these provisions must have the rights removed prior to closing to be considered.

### MANUFACTURED HOMES

Flagstar bank will only purchase loans secured by double-wide manufactured homes under fixed-rate programs. Conventional transactions must be Fannie Mae eligible. Refer to the [Seller's Guide, 9000 Government Guidelines](#) section for FHA and VA transaction guidelines. Transactions must be rate/term refinances of Flagstar Bank serviced loans.

Any dwelling-unit built on a permanent chassis and attached to a permanent foundation system is a "manufactured home" for purposes of underwriting. Other factory-built housing (not built on a permanent chassis), such a modular, prefabricated, panelized or sectional housing, is not considered manufactured housing and continues to be eligible.

Flagstar Bank specifies certain eligibility criteria that apply to any mortgage that is secured by a manufactured home. The manufactured home unit must be permanently affixed to a foundation and must assume the characteristics of site-built housing. The wheels, axles and trailer hitches must be removed when the unit is placed on its permanent site. All foundations, both perimeter and piers, must have footings that are located below the frost line. If piers are used, they should be placed where the unit manufacturer recommends. If state law requires anchors, they must be provided. Flagstar Bank will not purchase loans secured to single-wide manufactured homes or manufactured homes located within a condominium project.

### **TRANSACTION REQUIREMENTS**

For Flagstar to consider for purchase of a manufactured home the following criteria must be met:

- Loan must be a rate and term refinance of the Flagstar Bank serviced loan.
- Principal residences and Second Homes only, no investment properties.

- Subordinate financing is not permitted.
- All closing documents must be ordered through Flagstar Bank's Web-Based Closing Documents (WBCD) with a fully executed Manufactured Home Rider.
- All manufactured homes must be appraised by a Flagstar approved Appraisal Management Company.
- Manufactured homes that have been deconstructed and moved to another property are not eligible.
- Pricing will be an additional 1.5 discount points. See current rate sheet for any additional adjustments to pricing. Temporary buy-downs are not eligible.

### **APPRAISAL AND DOCUMENTATION REQUIREMENTS**

A manufactured home must be a one-family dwelling-unit that assumes the characteristics of site-built housing and is legally classified as real property. The purchase, conveyance and financing (or refinancing) of the land and the manufactured home, which must be evidenced by a valid and enforceable first lien mortgage or deed of trust that is recorded in the land records, must represent a single real estate transaction under applicable state law. A combination chattel and real estate mortgage is not acceptable.

Visit [eFannieMae.com](http://eFannieMae.com), [Titling Manufactured Housing](#) for state-specific guidelines.

The appraiser must state the subject property is taxed as Real Property or if the property is new construction, the title company must supply a statement that the subject property will be taxed as Real Property. An ALTA 7 endorsement (manufactured housing endorsement) must accompany all title work for a manufactured home. This endorsement should ensure that the land described in the policy as the insured property includes the manufactured housing-unit located on the land at the date of the policy.

Flagstar Bank underwriting department requires complete title work prior to closing to be reviewed by Underwriting on all manufactured home transactions, in addition to a copy of the homeowners' insurance policy showing the Dwelling coverage equal to at least the mortgage balance or replacement cost new generated by the appraiser.

### **ADDITIONAL WARRANTIES**

- The financing must be evidenced by a mortgage or deed of trust recorded in the land records. A combination of a chattel and real estate mortgage is not acceptable.
- The manufactured home must be built in compliance with the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976 (as amended and in force at the time the home is manufactured) and that appear in HUD regulations at 24 C.F.R. Part 3280. Compliance with these standards will be evidenced by the presence of a HUD Data Plate. The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. In addition to the data required by Fannie Mae, the data plate includes pertinent information about the-unit including a list of factory-installed equipment. The HUD Certification Label is a metal plate (sometimes referred to as a HUD "seal" or "tag") located on the exterior of each section of the home. Flagstar Bank will not accept any manufactured home built before 1976.
- The manufactured home must be permanently affixed to a foundation system that is appropriate for the soil conditions for the site and is designed to meet local and state codes.
- The manufactured home certificate of title must be surrendered in all non-title holding states. For title holding states, the certificate of title must be perfected with Flagstar Bank as the sole lien holder.

## Conventional Underwriting Guidelines

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- The mortgage amount cannot include the financing of furniture, mortgage life insurance or any other form of insurance (other than hazard, flood, mortgage and title insurance). However, the financing of kitchen and laundry appliances and carpeting may be included in the mortgage.
- The borrower must sign a written statement acknowledging his or her intent that the-unit is a fixture and part of the real property securing the mortgage.
- The manufactured home must be permanently connected to a septic tank or sewage system and to other utilities in accordance with local and state requirements.
- Property is zoned 1 to 4-Unit, residential
- The manufactured home is a structure that is built on a permanent chassis.
- The manufactured home must have a pitched roof with overhang. The roof covering must be standard composition shingle (asphalt or fiberglass) or better.
- If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community owned and maintain or privately owned and maintained. There must be adequate vehicular access and there must be an adequate and legally enforceable agreement for vehicular access and maintenance.
- The appraiser must also include in the appraisal report the manufacturer's name, the model name, the year of manufacture and the serial number for the subject property. This information can be verified by reviewing the Data Plate/Compliance Certificate that is located inside the manufactured home.
- The appraiser must address both the marketability and comparability of a manufactured home by using comparable sales of similar manufactured homes. If at least three comparable sales of manufactured homes are not available, the appraiser may use either site-built housing or a different type of factory-built housing as one of the comparable sales. When that is the case, the appraiser must use at least two comparable sales of similar manufactured homes, explaining why site-built housing or a different type of factory-built housing is being used for the one comparable sale and make (and support) appropriate adjustments in the appraisal report. If the appraiser is unable to find two comparable sales of similar manufactured homes, the mortgage is not eligible for delivery to us since the market value of the property cannot be adequately measured and supported.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of a factory-built home (although this type of information may be included as additional supporting documentation).
- The mortgage must be covered under a standard real estate title insurance policy that covers the manufactured home as part of the real property that secures the mortgage. This is evidenced by an ALTA 7 endorsement (or any other endorsements required in the applicable jurisdiction for manufactured homes that are treated as real estate). A copy of the preliminary title commitment must be reviewed by underwriting prior to closing.
- The appraisal must be performed on form 1004C. Form 70B is not acceptable.
- The appraiser must have been provided with a copy of the executed copy of contract for sale of the manufactured home and land or if the manufactured home and land are being purchased separately, the executed contract for each. If the manufactured home is new, the appraiser must be provided with a copy of the invoice. The appraiser must provide his or her analysis in the appraisal report.
- Mortgages secured by manufactured homes located on leasehold estates or condominium projects are ineligible.
- The appraisal must contain at least two Manufactured Home comparables or else the loan is ineligible.
- All loans must close with a fully-executed Manufactured Home Rider.
- Loans requiring Private Mortgage Insurance must have a minimum of 900 square feet.

## Conventional Underwriting Guidelines

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- Manufactured homes that require flood insurance must have a separate flood policy. Homeowner/Mobile policies that include flood under one policy are not acceptable under any circumstances when Flood Insurance is required. This will not meet investor requirements or NFIP Cancellation/Nullification Provisions. A separate flood policy is required.
- Manufactured Homes in New Jersey constructed prior to 1985 are ineligible.

### MIXED-USE PROPERTIES

Beauty shops, doctor's office, small grocery, etc. For both Freddie Mac and Fannie Mae, we will accept mixed-use properties as long as the following guidelines are met:

- Property must be a 1- Unit property that the borrower occupies as his or her principal residence
- The mix-use of the property must represent a legally permissible use of the property under local zoning requirements
- The borrowers must be both the owner and the operator of the business
- The property must be primarily residential in nature
- The market value of the property must be primarily a function of its residential characteristics, rather than the business use or any special business-use modifications that were made.

The mortgaged premises must be residential. We do not purchase mortgages secured by vacant land or property used primarily for agriculture, farming or commercial enterprise.

### MULTIPLE PARCELS UNDER ONE MORTGAGE

When the security property consists of more than one parcel of real estate, the parcels must meet the following conditions:

- Each parcel must be conveyed in its entirety
- Parcels must be adjoined to the other
- Each parcel must be zoned as residential
- Only one parcel may have a dwelling-unit (limited non-residential improvements such as a garage are acceptable)
- The mortgage must be a valid first lien on each parcel

Flagstar may amend the security instrument to include the conditions under which the adjoining lot subsequently may be released as security for the mortgage. One such condition is that the outstanding unpaid principal balance of the mortgage must have the same (or a better) relationship to the current appraised value of the property after release of the adjoining lot that the original mortgage amount had to the original value of the property at the time we purchased or securitized the mortgage. This can be the result of property appreciation or the borrower making an additional principal payment to reduce the mortgage balance to the required level.

### NATURAL DISASTERS

When there are instances of inclement weather, such as tornados, flooding etc. it is the responsibility of the correspondent or broker to warrant that the subject property is in an acceptable condition. Appraisals dated prior to the date of a natural disaster require a re-inspection with photos prior to delivery to Flagstar Bank.

### OIL, GAS, WATER AND MINERAL RIGHTS

Any exceptions for title insurance must meet the following requirements:

#### **FOR FREDDIE MAC ONLY**

- The appraiser must state that the exercise of such rights will not result in damage to the mortgaged premises or impairment of the use or marketability of the mortgaged premises for

## Conventional Underwriting Guidelines

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residential purposes and there is no right of surface or subsurface entry within 200 feet of the residential structure.

- There is a comprehensive endorsement to the title insurance policy that affirmatively insures the lender against damage or loss due to the exercise of such rights.

### **FOR FANNIE MAE ONLY**

- Exceptions are acceptable as long as the appraiser states the rights do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

### OIL TANKS

Specific to oil tanks located on a residential property, buried or not buried, Flagstar Bank requires properties with an oil tank to meet the following guidelines:

- The appraiser must state oil tanks are common to the area and have no adverse effect on marketability.
- The appraiser must make a statement that he/she detected no evidence of leakage from the oil tank.

### PLANNED UNIT DEVELOPMENTS (PUD)

For both Freddie Mac and Fannie Mae a planned unit development (PUD) is a development that has all of the following characteristics:

- The individual unit owners own or have a leasehold interest in a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
- The development is administered by a homeowners' association that owns or has a leasehold interest in and is obligated to maintain property and improvements within the development (i.e. greenbelts, recreation facilities and parking areas) for the common use and benefit of the-unit owners.
- The unit owners have an automatic, non-severable interest in the homeowners association and pay mandatory assessments.
- Zoning is not a basis for classifying a project or subdivision as a PUD.

For the purposes of these guidelines, a condominium is not considered a PUD. If a condominium unit is located in a PUD, the lender must comply with all condominium requirements and warranties. If the PUD unit or any PUD common property is on a leasehold estate, the project must comply with leasehold estate requirements.

### **PRESALE**

Freddie Mac has no pre-sale or other additional guidelines pertaining to the nature of the PUD project. Fannie Mae does make a distinction between an established and a new project as follows:

- A Type E PUD Project is an established planned unit development project in which control of the owners' association has been turned over to the unit purchasers. Standard property guidelines apply to an established PUD property.
- A Type F PUD Project is a new planned-unit development project or, in some cases, an existing planned unit development project that has not had control of the owners' association turned over to the unit purchasers.
  - The project cannot have been created by the conversion of existing buildings into a planned unit development.
  - The project must not include any multi-dwelling units.

A Project Review is not required for Type E or Type F if the subject property is a detached dwelling.

### **LIABILITY INSURANCE**

Liability Insurance is not required for Type E Projects. Liability Insurance will not be required on Type F Projects if common areas consist of only minimal amenities, such as entrance gates, parking areas, greenbelts and grass median strips and does not include any structural improvements or amenities such as recreational facilities and retention ponds.

### **FLOOD INSURANCE**

Refer to *Flood Insurance*, [Doc. #4603](#) for coverage requirements

All attached projects located in flood zone must have the flood policy reviewed by Flagstar Bank's Condominium Review department.

### PRIVATE WELLS

Subject properties with a water source provided by a shared well, with the well located on another property must be approved by management. A recorded shared well agreement and title commitment must be submitted for review. The shared well agreement must provide irrevocable water rights to the subject property.

### RENT LOSS INSURANCE

Paragraph C of the multi-state 2 to 4-Unit rider (FNMA/FHLMC Form 3170) requires the borrower to maintain rent loss insurance in an amount equal to gross rentals for at least 6 months. Rent loss insurance compensates the owner for a loss or reduction of rental income caused by fire or any other casualty covered by the hazard insurance policy. It is a standard provision contained in most hazard policies for rental dwellings. Freddie Mac requires the borrower to have rent loss insurance coverage on ALL investment properties owned, including the subject property. Freddie Mac will only waive this requirement when rental income is not being used in qualifying the borrower on a 2 to 4-Unit owner occupied property or if the borrower owns only one investment property (and rental income is not being used to qualify). Fannie Mae will allow rent loss insurance to be waived if Desktop Underwriter does not require it in the feedback (see section F below for more specific direction regarding waiving this requirement and DU data entry). For FNMA manually underwritten mortgages, rent loss insurance is not required if the borrower qualifies with the full PITI without rental income from the subject property.

### REO PROPERTIES

#### **UNEXPIRED RIGHTS OF REDEMPTION**

Flagstar will not approve and/or purchase any loan having an unexpired right of redemption unless the purchase agreement, title and appraisal all show the same seller who is the original mortgagor.

- Title may show *lis pendens* notices from the bank or mortgagee
- Purchase contract may indicate a short sale

### REPAIR ESCROWS

#### **REPAIR ESCROW LIMITS**

- Estimated cost of improvements must not exceed the lesser of 10% of the value of the property or \$15,000.
- Total escrow to be 120% times the amount of approved repairs. However, if the builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.

### **PRODUCTS AND LOAN-TO-VALUE**

- Fannie Mae programs only
- Owner occupied one to two-unit 95% LTV/CLTV limit
- Second Home 90% LTV/CLTV Limit
- 1-Unit investment property 75% LTV/CLTV limit
- Desktop Underwriter *Approve* response
- Manufactured Homes are not eligible
- MI Available from MGIC, Genworth and Essent
- No major repairs between November 15 and March 15 in cold weather states. Weather related repairs are only eligible for new construction
- Roof repairs are not eligible to be escrowed
- Interior repairs are not eligible to be escrowed

### **ACCEPTABLE WEATHER RELATED ITEMS NEW CONSTRUCTION ONLY**

- Driveway
- Sidewalk
- Landscaping
- Sprinklers
- Sod

### **UNACCEPTABLE REPAIRS FOR NEW OR EXISTING CONSTRUCTION**

The following are some examples of items that are not eligible for an escrow holdback, but are not limited to:

- Plumbing, electrical, septic, or HVAC systems not fully functional
- Kitchen not fully functional
- Roofing issues including leaks past or present unless certified as having been repaired
- Foundation cracks or settling including leaks past or present unless certified as having been repaired
- Water in basement
- Siding or fascia along eaves that is missing or has significant damage
- Mold of any significance

### **REPAIR ESCROW DETERMINATION**

- Improvements must not affect livability, soundness or structural integrity of the property.
- Seller funded escrow: Loan to value based on the lower of purchase price or as repaired value.
- After repairs are completed, any funds remaining that were contributed by the property seller must be applied to the outstanding principal balance.
- Borrower funded escrow: LTV based on the lower of purchase price or as is appraised value.
- Funds contributed by the borrower from his/her own funds may be returned to the borrower.
- Escrow holdback for pools must be part of the builder contract, the appraised value must include the pool (subject to completion). The cost of the pool cannot exceed 10% of the "as completed" value of the property. For loans that have a separate sales contract for construction of the pool by a third party, refer to *Fannie Mae Homestyle Renovation*, [Doc. #5719](#).

Establish an escrow for repair equal to 120% of the contract estimate and manage the completion of the repairs, to be completed within 60 days of closing. Cost of repairs will be supported by the following:

- 2 bids obtained. The escrow holdback is based on the higher of the two estimates.

## Conventional Underwriting Guidelines

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- In lieu of two estimates, a contract signed by the builder and the borrower may be considered. If the builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
- Repair escrow is an overage above the loan amount and does not factor into the max loan or LTV.
- All escrowed repairs must be completed within 60 days.

### **UNDERWRITER PROCESS STEPS**

- Provide 2 bids or a builder contract.
- All repair escrows to be held by Flagstar Bank.
- Loan to have the full amount of the escrow holdback added to the fee screen as Misc Fee line 1319 (escrow holdback).
- Loan will have the following conditions at closing:
  - Borrower to sign the Flagstar *Escrow Holdback Agreement*, [Doc. #3655](#). A repair escrow to be established for \$\_\_\_\_\_ for the following repairs: \_\_\_\_\_
  - Final inspection by the appraiser, with photos, to confirm completion of the following repairs: \_\_\_\_\_. Repairs to be completed within 60 days of closing date. For repairs involving mechanical work such as electrical, plumbing or heating, proof of permit required prior to escrow disbursement.

All repair escrows require underwriting manager approval.

### **SEASONING/FLIPPING**

Purchase transactions require the subject property be owned by the seller for at least 30 days from the date of the purchase agreement unless the seller meets one of the following conditions:

- State and Federally chartered financial institutions and government sponsored enterprises (Fannie and Freddie)
- Sales by HUD of its real estate owned
- Local and State government agencies
- Non-profits approved to purchase HUD REO properties
- Sales of properties located in presidentially-declared disaster areas.
- Sales of properties acquired through inheritance – Must document seller's inheritance of the property
- Sales of properties acquired by employers or relocation agencies in connection with relocations of employees (Must provide relocation agreement indicating the seller acquired the property as a result of company transfer of the previous owner).
  - Documentation proving the selling entity is exempt is required
  - If seller is a subsidiary or vendor hired by an exempt lender, the relationship between the two entities must be documented.

Individuals, companies or investors who purchase foreclosed properties and sell them are not eligible for this exemption.

### **SITE CONDOMINIUMS**

#### **REVIEW REQUIREMENTS**

Site Condominiums composed of detached 1- Unit dwellings (site condominiums) that meet the following conditions are eligible for a streamline review:

- The subject is a detached unit (and does not include manufactured housing units).

## Conventional Underwriting Guidelines

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- The subject property is a primary residence. Second homes and Investment properties are allowed if the loan has been submitted to Desktop Underwriter.
- Freddie Mac: Appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004. If using Form 1004 a condo questionnaire will be required. All project information will be reviewed by underwriting.

### **ADDITIONAL WARRANTIES**

- The subject is covered by a Title Insurance Policy that includes an Alta Form 4, Condominium Endorsement or its equivalent.
- The property is covered by Hazard, Flood, Liability and Fidelity insurance.
- Unit holders have an automatic non-severable interest in the homeowners association and pay mandatory assessments
- A condo rider will be required at closing
- The development is administered by a homeowner's association and it carries \$1,000,000 general liability insurance. Evidence of insurance is not required if the project common elements consist of greenbelts and contains no structural improvements or amenities such as playgrounds or retention ponds and does not contain any commercial space.

### **APPRAISALS**

Reports are usually documented on the Individual Condominium Unit Appraisal Report (Form 1073).

#### **FANNIE MAE**

Appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance.

#### **FREDDIE MAC**

Appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004. If using Form 1004 a condo questionnaire will be required. All project information will be reviewed by underwriting.

Documentation requirements from any AUS findings must be followed.

### **AUS REQUIREMENTS**

When using Loan Prospector or Desktop Underwriter, the property type must be submitted as a *Detached Condominium*.

### **CONVENTIONAL UNDERWRITING OVERLAYS**

- Appraisal must be ordered through a Flagstar approved appraisal management company (AMC) if one of the following is true:
  - Property is a 3 to 4-Unit property
  - All manufactured home properties
  - Any loan, conventional or government for any employee in the sales or loan production function of an originating branch or company
  - Cooperative Properties on any High Balance Programs
  - Additionally, certain loan products may require an approved appraisal management company appraisal – check the product description for details

### ASSETS

Business Assets: Two months statements must be submitted regardless of AUS response. The lowest ending balance of either statement provided will be allowed for funds to close.

### CONDOMINIUMS

- Delegated customers, please refer to your Delegated Welcome Package for eligibility.
- New (Type R) projects are not eligible in NV.
- New conversions (Type R) NV are not eligible.

### CREDIT HISTORY

- *Undisclosed Debt Acknowledgement*, [Doc. #3270](#) is required for all loans in which the credit report contains inquiries.
- All borrowers must have at least one valid credit score to be eligible. The credit report(s) must also meet the following trade line requirement;
  - 2 trade lines with a minimum 12-month history or
  - 1 trade line with a minimum 12-month history and a 12-month housing reference evidenced by cancelled checks.
- The number of mortgage inquiries will be taken into consideration and could result in a denial.
- Unreported non construction liens must be seasoned for 12 months and the payment history evidenced with 12 months cancelled checks.

### FAMILY OWNED BUSINESSES

Two years tax returns are required regardless of the AUS response.

### MANUFACTURED HOMES

Manufactured Homes are only allowed on Flagstar-to-Flagstar refinances.

### NET TANGIBLE BENEFIT

Rate and Term Refinance transactions require the *Net Tangible Benefit Worksheet*, [Doc. #3920](#).

- Borrower's total mortgage payment must decrease by at least 4% (including mortgage insurance if applicable).
- The number of months required to recapture the borrower-paid POC items and closing costs shown in sections 800, 1100 and 1200 of the Good Faith Estimate and HUD-1 Settlement Statement may not exceed 48 months

### NON-ARMS-LENGTH TRANSACTION

Non-arms-length transactions are not allowed on short sales, second home new construction or investment property transactions.

### OCCUPANCY

If borrower applies for an owner occupied transaction after closing on a previous owner occupied transaction with Flagstar on a different property in the last 12 months, the new transaction will be ineligible. This guideline will not apply if the previous property has been sold or refinanced as a non-owner occupied residence. For owner occupied transactions, the borrower warrants he or she will occupy the property for at least 12 months.

### ***POWERS OF ATTORNEY***

- Purchase or rate/term refinance transactions only
- Not allowed on cash-out transactions
- Not allowed on investment transactions

### **PROPERTY FLIPPING**

All purchase transactions will require that the seller have had title and be the recorded owner of the property for at least 30 days. The days start from the date of deed last recorded and the date of the signed purchase agreement. Reference the [Property and Appraisal](#) section for more information.

### **RECENTLY LISTED PROPERTIES**

- For all refinance transactions with an LTV greater than 70%, the property cannot be listed in the previous 90 days.

### **REO PROPERTIES**

If the appraisal is completed without the utilities being turned on the following condition must be satisfied prior to the loan being cleared to close: Satisfactory inspection from the appraiser the mechanical systems have been turned on and are functioning properly.

### **SECOND HOMES AND INVESTMENT PROPERTIES**

- Non-arms-length transactions are not allowed for investment or second homes new construction properties, reference the [Second Homes](#) and [Investment Properties](#) sections.
- First-time home buyers (borrowers who have had no previous home ownership are not eligible for an investment property purchase transaction.
- For 3 to 4-Unit investment properties, borrowers are required to have a minimum level of six months cash reserves for each investment property owned to be eligible for financing of investment properties. Reserves are calculated based on the subject property PITI.
- All properties owned and financed within household will be counted towards total number of properties financed. Non purchasing spouse properties will be included.