

Conforming 30 ARM

Eligible Programs

- 5/1 Fixed-Period ARM
- 5/1 Fixed-Period Interest Only ARM
- 7/1 Fixed-Period ARM
- 7/1 Fixed-Period Interest Only ARM
- 10/1 Fixed-Period ARM
- 10/1 Fixed-Period Interest Only ARM

Eligible Properties

- 1-4 unit properties
- Warrantable Condos (low and high rise) -Not allowed in Florida
- PUDs
- Owner occupied, second homes, and investment properties
- 2-4 units not allowed for second homes

Ineligible Properties

- Condo hotels
- Mobile/Manufactured housing
- Non-warrantable condos
- Co-ops
- Log homes
- Leasehold Property

Doc Type

Full

LTV/CLTV Parameters – Fully Amortized

Purchase / Rate-Term Refinance				
Occupancy	Units	LTV	CLTV	Minimum FICO
Primary	1	95 ¹	95	620
Primary	2	80 ²	80	640

Section 4.1: Conforming Products

Primary	3-4	75	75	620
Second Home	1	90	90	620
Investment	1	85% Purchase 75% Rate & Term	85% Purchase 75% Rate & Term	620
Investment	2	75 ⁴	75	660
Investment	3-4	75 ⁴	75	660
¹ If the loan has subordinate financing, the max LTV is 90% ² If the loan has subordinate financing the max LTV is 75% ⁴ If the loan has subordinate financing the max LTV is 70%				

Cash Out Refinance				
Occupancy	Units	LTV	CLTV	Minimum FICO
Primary	1	85	85	620
Primary	2	75 ¹	75	680
Primary	3-4	75 ¹	75	680
Second Home	1	75	75	620
Investment	1	75	75	700
Investment	2-4	70 ²	70	700
¹ If the loan has subordinate financing, the max LTV is 70% ² If loan has subordinate financing, the max LTV is 65%				

LTV/CLTV Parameters - Interest Only

Purchase / Rate-Term Refinance ²				
Occupancy	Units	LTV	CLTV	Minimum FICO
Primary	1	70	N/A ¹	720
Second Home	1	70	N/A ¹	720
¹ Subordinate financing not eligible ² The borrower must have a minimum reserves of 24 months regardless of AUS decision				

Loan Amount

Minimum Loan Amount

\$50,000

Maximum Loan Amount

Number of Units	Continental U.S.	Alaska and Hawaii
1 Unit	\$417,000	\$625,500
2 Units	\$533,850	\$800,775
3 Units	\$645,300	\$967,950
4 Units	\$801,950	\$1,202,925

Term

30 year term only

Underwriting

Loan must be run through DU and must receive an Approve/Eligible. Minimum FICOs are listed in the matrix above. Minimum FICO of 620 required regardless of AUS approval. Manual underwriting is not permitted on this product.

Mortgage/rental history must be verified as required by the AUS findings. No 60, 90, or 120 day mortgage lates in the last 12 months regardless of findings.

2-unit primary residence: The borrowers may not own any other residential property of equal or greater value in the same area in which the units are located. The mailing address and property address must be verified as the same; if this cannot be done, it must be treated as an investment property.

Asset Documentation

Fully document assets as listed in Credit Policy section 3.5

Down Payment/Gifts

Gift funds are allowed on primary residences. Gift funds can be used for down payment as long as a minimum 5% down payment comes from the borrowers own funds. There is an exception if the LTV is < 80% on owner occupied and second homes.

Gift Funds			
Type	Owner-Occupied	Second Home	Investment

Section 4.1: Conforming Products

Source	Relatives Domestic Partner Fiance / Fiancee	Relatives Only	Not allowed
Percentage of Borrower's Funds	Minimum 5% down payment must be from the borrower's own funds. Note: If the LTV/CLTV is less than or equal to 80%, the entire down payment may be a gift	Minimum 5% down payment must be from the borrower's own funds. Note: If the LTV/CLTV is less than or equal to 80%, the entire down payment may be a gift ¹	

¹ May not be gift of equity

Reserves

The following reserve requirements apply to second home or investment property transactions or borrowers who have an interest in multiple financed properties:

- Two months reserves on the **subject property** that is a second home, AND
- Six months reserves on the **subject property** that is an investment property, AND
- Two months reserves for **each additional financed** second home or investment property.

This requirement applies regardless of AUS findings.

Interest Only:

- 24 months reserves for any interest only product **regardless of AUS decision.**

Definition of Liquid Financial Reserves:

The definition of liquid financial reserves on conventional loans has been clarified to include all components of the monthly housing expense:

- Principal and Interest
- Hazard, flood, and mortgage insurance premiums
- Real estate taxes
- Ground rents
- Special assessments
- HOA dues
- Subordinate finance payments secured by the subject property

Fannie Mae's Loan Quality Initiative (LQI)

The following guidelines are effective for loan applications taken on or after June 1, 2010. These changes are in response to Fannie Mae's announcement 2010-03 which purpose is to enhance loan quality. Since this is a Fannie Mae directive it applies to **Conventional Loans only** (LDP & GSA still required on FHA loans).

Borrower Identity and Social Security Verification:

The file must provide documentation to confirm each borrower's identity prior to closing and verify that each borrower has a valid Social Security number. For loans that receive Social Security number verification messages and do not pass the delivery edits from DU, LP, or have credit repository warnings, the accuracy of the Social Security number must be validated with the Social Security Administration using Form SSA-89 or direct validation by a third party. This can be done through Fraud Guard, but requires a separate authorization signed by the borrower.

Undisclosed Liabilities:

The file must provide evidence that all debts incurred or closed by the borrower, up to and concurrent with closing are disclosed on the final 1003 and evaluated in qualifying the borrower for the loan. Any inquiries on the credit report must be addressed individually, by the borrower, both to purpose and outcome of inquiry. Generic explanation letters are not acceptable. In addition, the underwriter must obtain within 7 days of closing, a credit supplement or direct verification from each creditor shown as an inquiry on the credit report, to verify no new credit was extended. Our current policy of re-pulling MERS prior to funding is still in effect.

Due diligence should be exercised by the underwriter in evaluating the credit file. Age of the credit report and/or individual trade lines should be reviewed and considered. A new credit report should be ordered if there is any indication of undisclosed credit. Particular attention should be paid to any large deposits that could be the result of borrowed funds.

When undisclosed liabilities are found, the loan must be re-underwritten and the file reviewed for misrepresentation.

Occupancy Requirements:

If an occupancy verification message appears in the DU findings, or if the underwriter questions occupancy based on the file review, documentation must be provided to confirm the applicant's intent to occupy the property as their principal residence. Possible scenarios:

If the transaction is the purchase of a principal residence, but a recent previous mortgage transaction was also the purchase of a principal residence within the previous 12 months, the borrower must provide some reasonable documentation to justify the new transaction.

If the transaction is a refinance of a principal residence but the loan application contains a different current address for the borrower, the borrower must provide additional documentation to justify the conflicting address information.

Validation of Qualified Parties:

Loans originated, underwritten, or serviced by individuals or companies that are on the Federal General Services Administration's (GSA) Excluded Party List or HUD's Limited Denial of Participation (LDP) list are ineligible. This includes management personnel and any other person or company that has substantive control over the transaction. This is now a requirement for all loans, not just FHA. If any company or individual is found to be on either list, the loan is not eligible for funding. A copy of the appropriate list that has been checked should be placed in the loan file.

The following parties must be checked on all loans, both government and conventional:

- Borrowers

- Co-Borrowers
- Sellers
- Real Estate Agents-Listing and Selling
- Loan Officer
- Broker
- Title Company
- Escrow Company
- Appraiser

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Income Documentation

Fully document income as listed in Credit Policy section 3.4.

Property Requirements

See Credit Policy section 3.6

Declining Market

Standard 5% reduction should be taken in declining markets. Exceptions to this standard are posted in Credit Policy Section 3.7-A9, Declining Markets.

Non-Occupant Co-Borrowers

Allowed on fully amortizing loans only. When income from non-occupant co-borrowers is used to qualify on owner-occupied properties, the following additional restrictions apply:

- Occupant borrower ratios cannot exceed 35/43%
- Maximum 90% LTV
- Purchase and rate/term refinance only
- Interest only option is not allowed

Ineligible Scenarios

- Refinance of a property listed for sale in the last 6 months*
- Borrowers who have more than 4 financed properties (when subject property is second home or investment)
- Undocumented income
- Non-Arms Length or “at-interest” transactions on investment properties

*Please see Recently Listed Property guidelines in Section 3.6-A24 of Credit Policy for more information.

Interested Party Contributions

Occupancy	LTV/CLTV	Maximum Seller Contributions
Owner Occupied	> 90%	3%

Section 4.1: Conforming Products

	≤ 90% and > 75%	6%
	≤ 75%	9%
Second Home	> 90%	3%
	≤ 90% and > 75%	6%
	≤ 75%	9%
Investment	All LTV/CLTVs	2%

Adjustable Rate (ARM)

5/1, 7/1 & 10/1 ARM available:

- 5/2/5 caps
 - The first adjustment may change the previous interest rate by no more than 5% up or down
 - Subsequent Adjustment Cap: each subsequent adjustment may change the interest rate by no more than 2% up or down
 - Lifetime Cap: The lifetime cap is 5% over the initial note rate.
 - Life Floor: The life floor will never be lower than the margin.
- 1 year LIBOR
- Margin: 2.25%
- Index: The average of interbank offered rates for one year in U.S. dollar-denominated deposits in the London Market (LIBOR) as published in *The Wall Street Journal*. The index will be notated on the current rate sheets.
- 5/1 ARM qualifying rate is greater of the Note rate plus 2% or the fully indexed rate.
- 7/1 & 10/1 qualifying rate is the initial Note rate.
- In E3, the margin and DU ARM plan will be hard coded to the program code. The index will not be hard coded and will need to be manually entered into E3. This can be completed from the TOL screen, click the Loan Program Data, and then enter from the Qualifying Rate data screen. If the index and margin are not entered into E3 then the DU will qualify the borrower at 1 ½% above the note rate.
- No conversion option
- HPML: ineligible
- Product Codes/DU Arm Plans:

Product Code	DU Arm Plan
C-A5L	3252
C-A7L	GEN 7
C-A10L	GEN 10

Interest Only Option

5/1, 7/1 & 10/1 Interest Only ARM available:

- 10 year interest only period
- 5/2/5 caps
 - The first adjustment may change the previous interest rate by no more than 5% up or down
 - Subsequent Adjustment Cap: each subsequent adjustment may change the interest rate by no more than 2% up or down
 - Lifetime Cap: The lifetime cap is 5% over the initial note rate.
 - Life Floor: The life floor will never be lower than the margin.
- 1 year LIBOR
- Margin: 2.25%
- Index: The average of interbank offered rates for one year in U.S. dollar-denominated deposits in the London Market (LIBOR) as published in *The Wall Street Journal*. The index will be notated on the current rate sheets.
- 5/1 qualifying rate is the greater of the Note rate or +2% of the fully indexed rate using a fully amortized payment. Borrower must be qualified using the PITI payment assuming a fully amortizing repayment schedule.
- 7/1 & 10/1 qualify at the greater of the Note rate or the fully indexed rate assuming a fully amortizing repayment schedule.
 - In E3, the margin and DU ARM plan will be hard coded to the program code. The index will not be hard coded and will need to be manually entered into E3. This can be completed from the TOL screen, click the Loan Program Data, and then enter from the Qualifying Rate data screen. If the index and margin are not entered into E3 then the DU will qualify the borrower at 1 ½% above the note rate.
- No conversion option
- Buydowns : ineligible
- Non-occupant co-borrowers: ineligible
- Subordinate financing: ineligible
- HPML: ineligible
- Reserves will be determined thru AUS. All assets input into AUS must be verified
- Product Codes/DU Arm Plans:

Product Code	DU Arm Plans
C-A5LI	3505
C-A7LI	3518
C-A10LI	3225

Mortgage Insurance

Section 4.1: Conforming Products

Mortgage Insurance is required on LTV's over 80%. Standard mortgage insurance coverage is listed below. Reduced coverage per AUS findings is allowed only if a loan-level price adjustment does not apply. Lender paid mortgage insurance is not available. Financed single premium MI is allowed, but may not be available in all scenarios. Please review the Credit Policy guidelines on mortgage insurance for additional information.

LTV	30 year term
90.01 – 95%	30%
85.01 – 90%	25%
80.01 – 85%	12%

Temporary Buydowns

- 2-1 temporary buydown allowed
- Fully amortized 30 year fixed loans
- Purchase and rate/term refinance only
- Occupancy
 - 1-4 unit Owner Occupied
 - 1 unit Second Home
- Min credit score 660
 - Self-employed borrowers 680
- Loans must be submitted through DU
- Qualifying rate is the greater of the Note rate or the fully indexed rate.
- Interest only option is not allowed.
- Maximum debt to income ratio 38%.

Impound Accounts

Escrow waivers are not permitted on LTV's over 80%. California properties may waive escrows up to 90% LTV.

Assumability

Not assumable.

Prepayment Penalty

Not allowed

Residency

Permanent and non-permanent resident aliens are allowed. Borrowers must have a valid social security number. See residency guidelines in Section 3.1-B for additional information.

Subordinate Financing

Allowed on full amortized loans only, interest only loans not allowed. Must be an outside second lien. Downpayment assistance programs and Community seconds are not allowed. HELOCs are acceptable second liens. If the loan has subordinate financing, the first lien LTV cannot exceed 90%. See Credit Policy section 3.2-D for more information.

State Specific Information

Texas homestead cash out loans are not allowed. Please see the Texas 50(a)(6) section for additional details on eligible products.

Illinois ARMs – Must qualify at the fully indexed rate

Hawaiian Home Land-Minimum – Not allowed