

Conforming Fixed

4.1-A Eligible Properties

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

4.1-B Ineligible Properties

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

4.1-C Doc Type

Full

4.1-D LTV/CLTV Parameters – Fully Amortized

Purchase / Rate-Term Refinance				
Occupancy	Units	LTV	CLTV	Minimum FICO
Primary	1	95 ¹	95	620
Primary	2	80	80	640
Primary	3-4	75	75	620
Second Home	1	90	90	620

Section 4.1: Conforming Products

Investment	1	80 ²	80 ²	620
Investment	2	75	75	660
Investment	3-4	75	75	660
¹ If the loan has subordinate financing, the max LTV is 90% ² Max 75% on rate/term refinance				
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	70	700

¹If the loan has subordinate financing, the max LTV is 70%

4.1-E Loan Amount

4.1-E1 Minimum Loan Amount

\$50,000

4.1-E2 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
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4.1-F Term

10, 15, 20, 25, and 30 year terms

4.1-G Underwriting

Loan must be run through DU or LP and must receive an Approve/Eligible or Accept finding. 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.

4.1-G1 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

UW Memo 13.2010 & Spotlight # 6

4.1-H Income / Documentation

Fully document income and assets.

Rental income is documented by the borrower's individual tax returns on Schedule E. The underwriter should request the most recent two years federal income tax returns as evidence of the receipt of rental income. Depreciation can be added back to the net income or loss shown on Schedule E. Unallowed losses should be deducted from the net income that is shown on Schedule E and any loss carryovers from previous years should be added to the net income.

If the property was not owned in this tax year, a copy of the fully executed lease is required. 75% of the gross rental income from the lease may be used to offset the mortgage payment in qualifying the borrower.

Borrowers who currently own their home typically have three options when they decide to purchase a new principal residence:

- They can sell the current residence and pay off the outstanding mortgage,
- Convert the property to a second home, assuming they can qualify with both the existing and new mortgage payments, and the property meets second home parameters, or
- Convert the property to an investment property and provide documentation that they will rent the property and use the income to offset the mortgage payment

In order to ensure that borrowers have sufficient equity and/or reserves to support both the existing financing and the new mortgage being originated, the following policy has been established for borrowers purchasing a new principal residence and converting their existing principal residence to an investment property. The following is required for conforming and non-conforming loan transactions.

SNMC will continue to permit up to 75% of the rental income to be used to offset the mortgage payment in qualifying if there is documented equity of at least 30% in the existing property (derived from an appraisal or AVM minus outstanding liens).

The rental income must be documented with:

- A copy of the fully executed lease agreement, and
- The receipt of a security deposit from the tenant and deposit into the borrower's account

If the 30 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment:

- Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction, and
- 6 months of PITI for both properties is required to be in reserves

4.1-I 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.

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

4.1-J Declining Market

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

4.1-K 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.

4.1-L 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
- If LTV exceeds 80%, the owner-occupant borrower needs 5% of their own funds

4.1-M Interested Party Contributions

Occupancy	LTV/CLTV	Maximum Seller Contributions
Owner Occupied	> 90%	3%
	≤ 90% and > 75%	6%
	≤ 75%	9%

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

4.1-N Temporary Buydowns

- 2-1 temporary buydown allowed
- Fully amortized 30 year fixed loans
- Purchase and rate/term refinance only
- Loans must be submitted through DU
- DU will determine whether the borrower qualifies at the note rate or the bought down rate

4.1-O Mortgage Insurance

Required on LTV’s over 80%. Standard mortgage insurance coverage is listed below. 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.

Mortgage Insurance Coverage		
LTV	10-, 15, and 20 Year Term	25-, 30-, and 40 Year Term
90.01 – 95%	25%	30%
85.01 – 90%	12%	25%
80.01 – 85%	6%	12%

4.1-P Impound Accounts

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

4.1-Q Assumability

Not assumable.

4.1-R Prepayment Penalty

Not allowed

4.1-S 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.

4.1-T 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
Source	<ul style="list-style-type: none"> • 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* *May not be gift of equity	

4.1-U Subordinate Financing

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%

4.1-V 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.

Hawaiian Home Land-Minimum – Not allowed