Fannie Mae Underwriting Guidelines

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Brief Overview of the Product:

This program contains Fannie Mae guidelines for their conventional fixed rate and balloon mortgage loan programs. These guidelines are not complete Fannie Mae guidelines. As always, AllRegs should be consulted for a complete set of guidelines.

Third Party Originations:

Third Party originations are permitted on this product.

National City Bank Originations:

National City Bank originations are permitted on this product.

Terms, Program Types, Investor/SSI Codes:

Fixed rate mortgages are available on 8 to 30 year terms. (For terms less than 10 years, loans must be submitted through DU.)

Balloon mortgages must be amortized over 30 years with a balloon term of 7 years.

TMO Users/Generic Codes:

Fixed Products:

	Investor Code	SSI Code
30 Year Fixed	C30	5
20 Year Fixed	C20	7
15 Year Fixed	C15	6
10 Year Fixed	C10	204
30 Year No MI Investment Property	C30UINV	1588
15 Year No MI Investment Property	C15UINV	1589

Balloon Products:

	Investor Code	SSI Code
7 Year Balloon	LOON7	15

TMO Users/FNMA-Only Codes:

	Investor Code	SSI Code
30 Year Fixed	FNC30	1483
20 Year Fixed	FNC20	1484
15 Year Fixed	FNC15	1485
10 Year Fixed	FNC10	1486
7 Year Balloon	FN7B-7	1487

AT Users: Please refer to the Product Code Table Conventional-Government Programs referenced on the home page as well as under the Miscellaneous Forms, Information & Misc. Bulletins section of the web site.

Note: FNMA Special Feature/Characteristic Codes must be entered on these loans as applicable.

Maximum Loan Amounts and LTVS:

For all loans the maximum loan amount will be Fannie Mae's loan limits based on the number of units in the subject property as follows:

Units	Loan Limit	Alaska and Hawaii
1	$322,700	$484,050
2	$413,100	$619,650
3	$499,300	$748,950
4	$620,500	$930,750

Maximum Loan Amounts and LTVS: (continued)

Standard Eligibility – Fixed Rate Mortgages:

Loan Purpose	Occupancy	Units	Max LTV	Max **CLTV	Max **HCLTV
Purchase and Limited Cash-Out Refinance	Primary	1	95%	95%	100%*
		2	90%	90%	95%
		3-4	80%	80%	85%
	Second Home	1	90%	90%	95%
	Investment	1-4	75%	75%	80%
Cash-Out Refinance	Primary	1-4	70%	70%	80%
	Second Home	1	70%	70%	80%
	Investment	1-4	70%	70%	75%

*Requires a minimum FICO score of 680 (700 if Self-Employed)
CLTV must be calculated based on the **disbursed amount of the line or loan. HCLTV is calculated based on the high credit limit of the line (CLTV limit must still be met). Refer to the Subordinate Financing section for instructions on how to calculate both.

Standard Eligibility – Balloon Mortgages

Loan Purpose	Occupancy	Units	Max LTV	Max *CLTV	Max *HCLTV
Purchase and Limited Cash-Out Refinance	Primary	1-2	90%	90%	95%
		3-4	80%	80%	85%
	Second Home	1	90%	90%	95%
	Investment	1-4	75%	75%	80%
Cash-Out Refinance	Primary	1-4	70%	70%	80%
	Second Home	1	70%	70%	80%
	Investment	1-4	70%	70%	75%

*CLTV must be calculated based on the **disbursed** amount of the line or loan. HCLTV is calculated based on the high credit limit of the line (CLTV limit must still be met). Refer to the Subordinate Financing section for instructions on how to calculate both.

Enhanced Eligibility – Fixed Rate, Balloon Mortgages
Please see the **Use of Automated Underwriting** and **Credit Scores** sections within the **Underwriting** section of this guide for Enhanced Eligibility requirements.

Loan Purpose	Occupancy	Units	Max LTV	Max *CLTV	Max *HCLTV
Purchase and Limited Cash-Out Refinance	Primary	1-2	95%	95%	100%
	Second Home	1	95%	95%	100%
	Investment	1-2	90%	90%	95%
Cash-Out Refinance	Primary	1-2	90%	90%	95%
	Second Home	1	90%	90%	95%
	Investment	1-2	85%	85%	90%

*CLTV must be calculated based on the **disbursed** amount of the line or loan. HCLTV is calculated based on the high credit limit of the line (CLTV limit must still be met). Refer to the Subordinate Financing section for instructions on how to calculate both.

Streamline Refinance Option 1 (Current Loan Serviced by NCM) Standard Eligibility – Fixed Rate Mortgages:

Loan Purpose	Occupancy	Units	Max LTV	Max (2)CLTV	Max (2)HCLTV
Limited Cash-Out Refinance (1)	Primary	1	95%	95%	100%*(3)
		2	90%	90%	95%
	Second Home	1	90%	90%	95%

(1) The LTV/CLTV/HCLTV will be limited to 90% if any of the proceeds from the transaction are used to pay off existing subordinate debt.
(2) CLTV must be calculated based on the **disbursed** amount of the line or loan. HCLTV is calculated based on the high credit limit of the line (CLTV limit must still be met). Refer to the Subordinate Financing section for instructions on how to calculate both.
(3) Borrower must have a minimum 680 FICO score (700 FICO if the Borrower is Self-Employed). If this minimum FICO is not met the HCLTV is limited to 95%.

Maximum Loan Amounts and LTVS: (continued)

Streamline Refinance Option 1 (Current Loan Serviced by NCM) Enhanced Eligibility – Fixed Rate Mortgages:
Please see the **Use of Automated Underwriting** and **Credit Scores** sections within the **Underwriting** section of this guide for Enhanced Eligibility requirements.

Loan Purpose	Occupancy	Units	Max LTV	Max [2]CLTV	Max [2]HCLTV
Limited Cash-Out Refinance [1]	Primary	2	95%	95%	95%
	Second Home	1	95%	95%	95%

[1] The LTV/CLTV/HCLTV will be limited to 90% if any of the proceeds from the transaction are used to pay off existing subordinate debt.
[2]CLTV must be calculated based on the **disbursed** amount of the line or loan. HCLTV is calculated based on the high credit limit of the line (CLTV limit must still be met). Refer to the Subordinate Financing section for instructions on how to calculate both.

Streamline Refinance Option 2 (Current Loan NOT Serviced by NCM) Standard Eligibility – Fixed Rate Mortgages:

Loan Purpose	Occupancy	Units	Max LTV	Max [1]CLTV	Max [1]HCLTV
Limited Cash-Out Refinance	Primary	1-2	90%	90%	90%
	Second Home	1	90%	90%	90%

[1]CLTV must be calculated based on the **disbursed** amount of the line or loan. HCLTV is calculated based on the high credit limit of the line (CLTV limit must still be met). Refer to the Subordinate Financing section for instructions on how to calculate both.

One-Time Close Construction Perm: Capped Float Down/Interest Rate Lock - Option 1 and 2

Loan Purpose	Occupancy	Units	LTV	CLTV [1]
Purchase	Primary Residence	1-2	95%	N/A
	Second Homes	1	95%	N/A
Purchase/Limited Cash-Out Refinance	Primary Residence	1	90%	95.00%
		2	90%	N/A
		3-4	80%	
	Second Home	1	90%	89.9%
[1] Subordinate financing is permitted only when the second is originated under the NHE Construction/Perm Second Mortgage Program				

One-Time Close Construction/Perm Option:

- Refer to the Construction/Perm Manual for detailed information on the One-Time Close Program
- Both the Capped Float/Down and Interest Rate Lock Options available
- Lender Paid MI and Financed MI features are not permitted with the Construction/Perm Option
- Lot Seasoning Requirements must be followed as detailed in the following section

Lot Seasoning Requirements:

Lots acquired **less than 12 months before** the Construction/Perm loan application date are as follows: *(see below for treatment of inherited or gifted lots):

- **Purchase and Refinance Transaction** LTVs are determined by dividing the loan amount of the Construction/Perm loan by the lesser of:
  - The appraised value of the property, both the lot and the improvements, or
  - The total acquisition costs which are the cost of the construction plus the sales price of the lot

Lot Seasoning Requirements: (continued)

Lots acquired **12 or more months before** the Construction/Perm loan application date are as follows: *(see below for treatment of inherited or gifted lots):

- **Purchase transaction** LTVs are determined by dividing the loan amount of the Construction/Perm loan by the lesser of:
  - The appraised value of the property, both the lot and the improvements, or
  - The total cost of the construction plus the appraised value of the lot
- **Refinance Transaction** LTVs are determined by dividing the balance of the Construction/Perm loan by:
  - The appraised value of the property, both the lot and the improvements

Lots acquired **by inheritance or gift** are as follows (regardless of how long the Borrower has owned the lot):

- Purchase and Refinance transaction LTVs are determined by dividing the loan amount of the Construction/Perm loan by the lesser of:
  - The appraised value of the property, both the lot and the improvements, or
  - The total cost of the construction plus the appraised value of the lot

Lot Credit:

Equity in the lot may be used to meet the Borrower minimum contribution for the transaction. For lots owned for more than 12 months before the date of the Construction/Perm loan application date, the transaction may be structured as a refinance and no minimum Borrower contribution is required (unless the Borrower must contribute his/her own funds to meet LTV requirements). For lots acquired less than 12 months before the Construction/Perm application date, the amount of the credit will be determined as follows:

- The lesser of its sales price/current appraised value minus the unpaid principal balance of any liens(s) on the lot. A copy of the HUD-1 from the lot acquisition, a copy of the warranty deed showing no liens or a copy of a release of lien is required.

Payoff of Land Contract:

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract (or contract for deed) that was executed within the 12 months preceding the date of the loan application, the transaction will be considered a purchase transaction. The LTV will be based on the lesser of the total acquisition cost or the current appraised value.

When the land contract (or contract for deed) was executed more than 12 months before the date of the loan application, the transaction will be considered a limited cash-out refinance transaction. The LTV will be based on the current appraised value.

Temporary Buydowns:

Temporary buydowns are permitted as follows:

- Primary residences (1-4 units) and second homes (1 unit) only
- Purchase and Limited Cash-Out transactions only
- Premium-priced buydowns on Limited Cash-Out Refinances are not permitted. (This includes buydowns on any premium-priced Limited Cash-Out Refinance loan regardless of whether the premium-pricing covered the closing costs, and prepaids, and the Borrower paid the buydown funds out of his/her own funds, or rolled the cost of the buydown into the loan amount).
- 3-2-1 and 2-1 buydowns are permitted
- Interest rate can adjust 1 time annually
- Maximum interest rate increase is 1%
- The buydown funds are subject to the interested party contribution limits if the buydown funds come from an interested party
- Buydown funds must be consistent with the buydown period terms

Temporary Buydowns: (continued)

- Qualifying rates:
  Primary Residences
  - For FICO scores < 660 (680 for Self-Employed Borrowers) the Borrower will be qualified at the Note rate
  - For FICO scores ≥ 660 (680 for Self-Employed Borrowers) the Borrower will be qualified at the Bought Down rate

  Second Homes
  - Borrowers will always be qualified at the Note rate regardless of FICO score
- A loan with a temporary buydown where trailing co-borrower income is being used must qualify at the Note rate

Balloon Information:

- At the maturity date of the Note, the Borrower may be able to refinance to a new Note and Mortgage with a maturity date of 23 years.
- Certain conditions must be met if the Borrower wishes to exercise the right to refinance. These conditions are:
  - The Borrower must still be the owner and occupant of the property
  - The Borrower must be current in their monthly payment as of the maturity date and cannot have been more than 30 days late on any of the 12 scheduled payments immediately preceding the maturity date
  - No other liens against the Property may exist
  - The refinance fixed rate cannot be more than 5% (500 basis points) above the current Note rate
  - The Borrower must make written request to refinance
- The refinance rate will be equal to the FNMA required net yield for a 30 year, fixed rate mortgage for a 60 day mandatory delivery plus one-half of one percent (0.500%) rounded to the nearest one-eighth of one percent (0.125%) in effect on the date that the Borrower gives notice to exercise the refinance. Borrower with a refinance rate no greater than 5% above the original Note rate will not require updated credit qualifications.

Eligible States:

All states are eligible with the following exceptions:

- District of Columbia: All origination sources are not permitted to originate loans in this area. Refer to Procedures for availability.
- Montana: Properties exceeding 40 acres are ineligible.
- Texas: Cash-Out Refinances on Primary Residences are only permitted on loans meeting Section 50 (a)(1) through (5) of the Texas Constitution—(For example, paying off a loan used to improve the home would be acceptable).

Eligible Borrowers:

- U.S. Citizens
- Permanent Resident Aliens
  - Eligible for a mortgage on the same terms as a U.S. Citizen
  - Documentation must be provided to evidence permanent residency
- Non-Permanent Resident Aliens
  - Two year employment verification in the U.S. or in the Borrower's previous country must be verified.
  - Two year credit and residency history must be established and can be verified in the U.S. or in the Borrower's previous country.
  - Verification that the Borrowers are legally residing/working in the U.S. must be supplied. (Diplomatic visas are unacceptable).

Eligible Borrowers: (continued)

- Inter Vivos Revocable Trusts: are acceptable Borrowers as long as the following requirements are met:
  - The Mortgage that has an Inter Vivos Revocable Trust as the Borrower, must satisfy the following eligibility criteria:
    - ⇒ The security property must be a one-family principal residence that is occupied by at least one of the individuals establishing the trust or a one-family second home
    - ⇒ Full title to the security property must be vested in the trustee(s) of the Inter Vivos Revocable Trust; there may be no other owners
    - ⇒ The title insurance policy must assure full title protection to FNMA and must state that the title to the security property is vested in the trustee(s) of the Inter Vivos Revocable Trust. It must not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust
    - ⇒ The mortgage must be underwritten as if the individual(s) establishing the trust were the Borrower(s) or co-Borrower if there are additional individuals whose income or assets will be used to qualify the mortgage
  - The trust must be established by a written document during the lifetime of the individual establishing the trust to be effective during his/her lifetime
  - The trust must be one in which the individual establishing the trust has reserved to himself/herself the right to revoke the trust during his/her lifetime
  - The primary beneficiary of the trust must be the individual establishing the trust. If the trust is established jointly by more than one individual, there may be more than one primary beneficiary--as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage and that individual will occupy the security property and sign the mortgage instruments
  - The trust document must name one or more trustees to hold legal title to, and manage, the property that has been placed in the trust. The trustees must include either the individual establishing the trust (or at least one of the individuals if the trust is jointly held) or an institutional trustee that customarily performs trust functions in the relevant state.
  - The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the "Borrower(s)" under the mortgage note.
  - The closing documents must be executed as follows:
    - ⇒ Each trustee and each individual establishing the trust whose income or assets were used to qualify for the mortgage must separately execute the mortgage note and any necessary addendum.
    - ⇒ The trustee(s) of the revocable trust must also execute the security instrument (mortgage or deed of trust) and any applicable rider.
    - ⇒ Each individual establishing the trust whose income or assets were used to qualify for the mortgage must acknowledge all of the terms and covenants contained in the security instrument and any necessary rider and agree to be bound by placing his/her signature after a statement of acknowledgement on such document.
    - ⇒ Any other party required to sign either the promissory note or the security instrument must also execute the applicable document(s). Exhibit A includes the form of signature for the trustee(s) and the statement of acknowledgement for each individual establishing the trust whose income or assets were used to qualify for the mortgage.
    - ⇒ The closing agent will be responsible for making any modifications that are needed to conform these signature forms to those that are customary for the state.
  - Trustees may be excluded from personal liability under the mortgage instrument subject to:
    - ⇒ Under the mortgage note, institutional trustees and individual trustees (other than individuals serving as trustees whose income or assets were used to qualify for the mortgage, including individuals who established the trust) may be excluded from personal liability.
    - ⇒ Under the security instrument, institutional trustees and individual trustees (other than individuals serving as trustees who both established the trust and whose income or assets were used to qualify for the mortgage) may be excluded from personal liability.
  - For all mortgages made to a revocable trust, a Revocable Trust Rider will be required as additional mortgage documentation. A sample Rider is enclosed (Exhibit B). The Rider is to be executed by the trustee(s) and by any other party required to sign the security instrument and acknowledged by each individual establishing the trust whose income or assets were used to qualify for the mortgage.
  - Due to the number of states in which we do business, we will hold responsible the Closing Agent to appropriately modify the Revocable Trust Rider and the form of signature(s) required on the Note and Security Instrument to reflect the requirements of the applicable state law. Minor variances based on individual state laws will be acceptable as long as our rights as the creditor are fully protected. The title insurers must be willing to provide full title insurance coverage without exception for the trust or the trustees for revocable trusts in that state.

Property Eligibility:

Please call to inquire about eligibility if your property type is not reflected.

- Primary Residences 1-4 Units
- Second Homes 1 Unit only
- Investment Properties 1-4 Units
- Condos
- PUDS
- Manufactured Housing
- Leaseholds – Not permitted with Balloon Mortgages
- Cooperatives – See “Cooperative Share” Mortgage for specific Cooperative requirements and origination eligibility
- Unique Properties
- Modular Homes
- Pre-fab, Panelized and Sectionals

Ineligible Properties:

- Condos with Leaseholds
- Singlewide Manufactured Homes
- Commercial Properties
- Working Farms
- Orchards
- Manufactured Homes in Ground Lease Communities
- Native American Leasehold Estates
- Any Condo/PUD project for which the HOA or developer (if control not turned over) is named as a party to current litigation that relates to the project.

Property Considerations:

Primary Residences:

Parents who want to provide housing for their physically handicapped or developmentally disabled adult children (who are unable to work or who have income that is not sufficient for them to qualify) will be able to purchase or refinance a property for such children and have it be considered a principal residence, even though the parent-borrower will not be the occupant of the property. This same flexibility will be extended to children who want to provide housing for elderly parents (who are unable to work or who have insufficient income to qualify for a mortgage of their own). The following documentation is required to be in the file:

- A letter of intent from all parties detailing the purpose of the purchase.
- Evidence the elderly parent or disabled adult child has insufficient income to qualify.

Second Home Requirements:

- Property must be suitable for year-round occupancy, but not under a time-share arrangement
- Borrower must occupy the property for some portion of the year and have exclusive control over its use
- Property must be located within a reasonable distance form the borrower’s principal residence
- Property must not be subject to a rental agreement that requires the borrower to rent if or that gives a management firm control over its occupancy
- Rental income may not be used to qualify the Borrower

Property Eligibility: (continued)

Property Considerations: (continued)

Investment Property Requirements:

- An Operating Income Statement is required to determine cash flow and operating income derived from the subject property
- A Single Family Comparable Rent Schedule or a Small Residential Income Property Appraisal Report (for 2-4 family dwellings) is required to obtain gross income for use in determining the income-producing ability of the subject property
- Rental property leases must have a provision showing the lease being subordinate to the mortgage
- The lease must show the tenant's rights to purchase the property have been formally waived by the tenant(s)
- For Investment Property Mortgages that satisfy FNMA's Enhanced Eligibility Criteria, the following must be met:
  - Borrower must have at least a two-year history of managing rental properties, unless the borrower qualifies for the mortgage based on the full PITI.
  - Borrower must obtain "rent loss" insurance to cover rental losses that may be incurred during any period that a property is being rehabilitated following a casualty and must cover a minimum of 6 months rent loss, unless the borrower qualifies for the mortgage based on the full PITI.

Condo Requirements:

- Please submit all condos through proper channels to obtain condo approval.
- **California Condos require special handling due to delivery fee requirements. See Procedures for details.**
- All projects must meet FNMA requirements as follows:
  - Type A Projects:
    - ⇒ All units, common elements and facilities (including those that are part of any master association) must have been completed and the project cannot be subject to additional phasing or annexation
    - ⇒ Control of the owners association must have been turned over to the unit purchasers and the unit purchasers must have been in control for at least 1 year
    - ⇒ At least 90% of the total units in the project must have been conveyed to the unit purchasers
    - ⇒ At least 60% of the total units in the project must be owner occupied. This requirement can be waived as long as all of the following requirements are met:
      - ✓ Primary residences or second homes only
      - ✓ For purchase or limited cash-out transactions the LTV/CLTV ratio may not exceed 90%.
      - ✓ For cash-out transactions the LTV ratio may not exceed 75%
    - ⇒ No single entity can own more than 10% of the total units in the project.
    - ⇒ No single entity can own more that one unit in a project of fewer than 10 units.
    - ⇒ The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in, and rights to the use of the project's facilities, common elements and limited common elements
    - ⇒ The project must be covered by the kinds of hazard, flood and liability insurance as required by FNMA.
  - Type B Projects (New projects or conversions over 4 units):
    - ⇒ All units, common elements and facilities within the project (including those that are part of any master association) must have been completed. A FNMA Regional Office may agree to waive this requirement. In addition, FNMA will not require units, common elements and facilities that are part of a master association to be completed if FNMA has reviewed and accepted the master association. In either case, the project cannot be subject to additional phasing or annexation.
    - ⇒ At least 70% of the total units in the project must have been conveyed (or must be under contract to be sold) to owner-occupants
    - ⇒ No single entity (other than the developer during the initial sales period) may own more than 10% of the total units in the project
    - ⇒ The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of the project's facilities, common elements, and limited common elements once control of the owner's association has been turned over to them
    - ⇒ The project must be acceptable under either a Phase I or Phase II environmental hazard assessment
    - ⇒ The project must be covered by hazard, flood, liability and fidelity insurance as required by FNMA
    - ⇒ All rehabilitation work involved in condominium conversion must have been completed in a workmanlike manner

Property Considerations: (continued)

Condo Requirements (cont'd):

⇒ The architect's or engineer's report that was originally obtained for a condominium conversion that was legally created within the past three years must comment favorable 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, roofs, etc.

⇒ The project must be demonstrably well-managed. If it is professionally managed, the management contract must be for a reasonable term and its termination provision must not require the payment of any penalty or an advance notice of more than 90 days

⇒ The project's operating budget must be consistent with the nature of the project and must provide for adequate replacement reserves based on the project's age and remaining life and on the quality and replacement cost of the major common element components

⇒ The project documentation must comply with FNMA's legal guidelines

- Type B projects (New or existing projects with only 2-4 units):

⇒ Appraisal must support marketability of small projects in the area.

⇒ All units, common areas, and facilities (including those that are part of any master association) must have been completed, and the project cannot be subject to additional phasing or annexation unless the applicable FNMA regional office has agreed to waive this requirement. However, control over the owner's association does not have to have been turned over to the unit purchasers.

⇒ At least one unit of a two unit project must have been sold or conveyed (or be under contract to be sold) to a unit purchaser who is occupying the unit as a principal residence or second home; at least two units of a three unit project must have been sold or conveyed (or be under contract to be sold) to unit purchasers who are occupying their units as a principal residence or second home; and at least three units of a four unit project must have been sold or conveyed (or be under contract to be sold) to unit purchasers who are occupying their units as a principal residence or second home.

⇒ No single entity (the same individual, investor group, partnership, or corporation) may own more than one unit in the project.

⇒ The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of the project's facilities, common elements, and limited common elements once control of the owner's association has been turned over to them

⇒ The project must be covered by hazard, flood, liability insurance as required by FNMA.

⇒ The project's documentation must comply with our legal guidelines (and must include a requirement for any dispute to be submitted for mediation or arbitration within a reasonable time frame); each small condominium must have its own separate legal documents, even if it has the same developer or sponsor as other small condominium projects. However, if the project is not incorporated, we do not require articles of incorporation, by laws, or other documentation related to incorporation.

- Type C Projects:

⇒ Type C Projects are most often new condo projects, but will also cover existing projects such as those consisting of single-width manufactured housing units. **Type C projects are not processed for approval by NCMC.** However, a valid 1028 will be accepted (FNMA Project Acceptance letter).

Property Eligibility: (continued)

Property Considerations: (continued)

Condo Requirements (continued):

- Detached Condominium Units:
  - ⇒ Single-Family detached unit in the condominium project (and is not a manufactured home).
  - ⇒ The condominium unit is occupied as the owner's principal residence or second home.
  - ⇒ The appraiser must document (within the appraisal report) any effect that buyer resistance to the condominium form of ownership has on the market value of the individual unit and, if the project is new, the appraiser must use a comparable sale of at least one detached condominium unit (which may be located either in a competing project or in the subject project, if it is offered by a builder other than the one that built the subject unit).
  - ⇒ The mortgage title insurance policy satisfies the special title insurance requirements we have for units in condominium project.
  - ⇒ The property is either covered by the type of hazard and flood insurance coverage FNMA requires for single family detached dwellings (if the condominium unit consists of the entire structure as well as the site and air space) or is covered by the project's master hazard and flood insurance policies (if the condominium unit consists only of the air space for the unit and the improvements and site are considered to common areas or limited common areas.)

- Required Insurance Coverage for Condominium Projects:
  - Hazard Insurance:
    - ⇒ The owners' association must maintain a "master" or "blanket" type of policy with premiums being paid as a common expense. The coverage should show the owners' association as the named insured.
    - ⇒ The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment and common personal property and supplies belonging to the owners' association. The policy must also cover fixtures, equipment and other personal property inside individual units if they will be financed in the mortgage whether or not the property is part of the common elements.
    - ⇒ The insurance should cover 100% of the insurable replacement cost of the project, including the individual units in the project. Coverage does not need to include land, foundations, excavations or other items that are usually excluded from insurance coverage. An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage: *Guaranteed Replacement Cost Endorsement* or *Replacement Cost Endorsement*
    - ⇒ Unless a higher maximum amount is required by state law, the maximum deductible amount for policies covering the common elements in a project is $10,000 or 1% of the policy face amount, whichever is less.
    - ⇒ The following special endorsements are required: *Inflation Guard Endorsement, Building Ordinance or Law Endorsement* and *Steam Boiler and Machinery Coverage Endorsement*.
    - ⇒ In addition the policy should provide (these provisions are usually covered by a *Special Condominium Endorsement)*:
    - ⇒ that any Insurance Trust Agreement will be recognized
      - ✓ that the right of subrogation against unit owners will be waived
      - ✓ that the insurance will not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the owners' association
      - ✓ the policy will be primary, even if a unit owner has other insurance that covers the same loss
  - Liability Insurance:
    - ⇒ The owners' association must maintain a commercial general liability insurance policy for the entire project in an amount of at least $1 million for each single occurrence.
    - ⇒ The coverage must also cover all common areas and elements, public ways, commercial spaces owned by the owners' association and any other areas that are under its supervision.
    - ⇒ The insurance should provide coverage for bodily injury and property damage that results from the operation, maintenance or use of the project's common areas and elements.
    - ⇒ The policy must provide for at least 10 days' written notice to the owners' association prior to any cancellation or substantial modifications of the policy

Property Eligibility: (continued)

Property Considerations: (continued)

Condo Requirements (continued):

- Fidelity Insurance:
  - ⇒ Required on Type B condo projects with more than 20 units
  - ⇒ In states that have statutory fidelity insurance requirements, the state requirements are accepted in place of the investor requirements
  - ⇒ The owners' association must have blanket fidelity insurance coverage for anyone who handles funds that it holds or administers, regardless whether or not that person receives compensation for services
  - ⇒ The policy must be in the name of the owners' association
  - ⇒ The premiums should be paid as a common expense by the owners' association
  - ⇒ The policy must provide for at least 10 days written notice to the owners' association and mortgage servicer prior to any cancellation or substantial modifications to the policy
  - ⇒ The management agent that handles funds for the owners' association should be covered by its own fidelity insurance policy and provide the same coverage as the owners' association policy
  - ⇒ The policy must cover the maximum funds that will be in the custody of the owners' association or its management agent at any time.
  - ⇒ A lesser amount is acceptable for a project if the project's legal documents require the owners' association and any management company to adhere to certain financial controls. Even in this case, the fidelity insurance coverage must be at least equal to the three months of assessments on all units in the project. Please see FNMA guidelines for regulations regarding reduced fidelity insurance based on greater financial controls.

PUD Requirements:

- Detached PUD units do not require project review (all PUD types).
- Please submit all attached PUDs through proper channels to obtain PUD approval.
- All projects must meet FNMA requirements as follows:
  - Type E Projects:
    - ⇒ Project acceptance applies to established PUDs in which control of the owners' association has been turned over to the unit purchasers
    - ⇒ If the project is part of a larger development and its owners' association has separate legal documentation it can still be classified as a Type E project and delivered to FNMA as long as the control of the project's subowners' association has passed to the purchasers
  - Type F Projects:
    - ⇒ Type F project acceptance applies to PUDs that are still under the control of the developer regardless of their construction status
    - ⇒ Reviews of Type F projects consisting solely of detached dwellings is not required
    - ⇒ Reviews of Type F projects consisting of attached and detached dwellings is not required if the subject property is a detached PUD
    - ⇒ The project cannot have been created by the conversion of existing buildings into a PUD project
    - ⇒ The project must not include any multidwelling units that represent the security for a single mortgage
    - ⇒ Project must not be composed of single-width manufactured homes.
    - ⇒ The units in the project must be owned fee simple and the unit purchasers must have the sole ownership interest in and the right to the use of the project's facilities once control of the owners' association has been turned over to the purchasers
    - ⇒ The project must contain enough sold units to support the responsibilities of the owners' association.
    - ⇒ A sufficient number of total units in the project (or legal phase) must have been conveyed (or under contract to be sold) to the purchasers. There is no set presale percentage, however, marketability of the project must be established by lender. Sales to the developer will not be counted.

Property Eligibility: (continued)

Property Considerations: (continued)

Manufactured Housing Requirements:

- All manufactured home loans must receive an Approve from DU.
- The manufactured home must be 22 feet wide (single wide manufactured homes are not acceptable)
- Only one-unit primary and second home transactions are permitted.
- The land and improvements must be included under one mortgage or deed of trust.
- Maximum financing is not available for cash-out refinances; therefore, LTVs must be reduced by 5% on all cash-out refinance transactions (e.g. if maximum LTV for a cash-out transaction is 80% then new LTV limit is 75%).
- Subordinate financing will not be permitted on Manufactured Housing.
- Must assume characteristics of site-built housing
- The subject property must be taxed as real property at closing. The loan may not close as personal property and convert to real property after closing.
- Manufactured homes in ground lease communities are unacceptable.
- 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 meet Federal Manufactured Home Construction and Safety Standards established by the Department of Housing and Urban Development in 1976. A "certification label" must be affixed to each transportable section of the manufactured home. Homes constructed prior to this time or not in accordance with this standard will be unacceptable.
- Must be permanently affixed to a site-built foundation system that is appropriate for the soil conditions of the site and designed to meet local and state codes. The transportation devices (wheels, axles, and trailer hitch) must be removed. A copy of the engineer's report is required.
- The mortgage amount cannot include financing of furniture, mortgage life insurance, property damage insurance, or any other form of insurance. The financing of kitchen and laundry appliances and carpeting may be included in the mortgage
- The Borrower must sign a written statement acknowledging his/her intent that the unit be a fixture and part of the real property securing the mortgage
- See Appraisal section for appraisal requirements for Manufactured Housing.

Modular Housing:

- 1-unit properties only
- Must assume characteristics of site-built housing
- The subject property must be taxed as real property at closing. The loan may not close as personal property and convert to real property after closing.
- Must be permanently affixed to a foundation system that is appropriate for the soil conditions of the site and designed to meet local and state codes.
- Must be built under the Uniform Building Code that is administered by the state agency that is responsible for adopting and administering building code requirements for the state in which the modular home is installed.
- Appraiser must address marketability and comparability of modular homes. It is not required that one or more of the comps be a modular home (although using comps of similar types of homes generally enhances the reliability of the appraiser's opinion of value). The appraiser must include in the appraisal report the most appropriate comps to support his or her opinion of value for the subject property.

Property Considerations: (continued)

Pre-Fabricated, Panelized, or Sectional Housing:

- 1-unit properties only
- Must assume characteristics of site-built housing
- The subject property must be taxed as real property at closing. The loan may not close as personal property and convert to real property after closing.
- Must be permanently affixed to a foundation system that is appropriate for the soil conditions of the site and designed to meet local and state codes.
- Does not have to satisfy either HUD's Federal Manufactured Home Construction and Safety Standards or the Uniform Building Codes that are adopted and administered by the state in which the home is installed. The home must conform with local building codes in the area in which it will be permanently located
- Appraiser must address marketability and comparability of Pre-fab, Panelized or Sectional Housing. It is not required that one or more of the comps be the same type of factory-built housing (although using comps of similar types of homes generally enhances the reliability of the appraiser's opinion of value). The appraiser must include in the appraisal report the most appropriate comps to support his or her opinion of value for the subject property.

Leasehold Requirements:

- Not permitted with Balloon Mortgages
- Must be in an area where leaseholds are acceptable in the marketplace
- Mortgage must cover the property improvements and the mortgagor's leasehold interest in the property
- The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien and be insured by a lender's title policy
- The term of the estate should run for at least five years beyond the maturity date of the mortgage
- The leasehold estate must be assignable or transferable.
- The lease must contain no default provisions that could give rise to forfeiture or termination of the lease except for non-payment of the lease rents and should guarantee the investor the right to receive notice of any default by the Borrower and to cure the default
- The lease provides provisions to protect the mortgagee's interests in the event of a property condemnations
- 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 be valid, in good standing and in full force and effect
- The lease must provide that the Borrower will pay taxes, insurance and any owner's association dues related to the land in addition to those he/she is paying on the improvements
- The Borrower must retain voting rights in any owner's association
- The lease is not required to include an option for the Borrower to purchase the fee interest in the land, but if 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. Both the lease and the option to purchase must be assignable.
  - The purchase price must be the lower of the current appraised value of the land or the amount results when a percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements
- The lease must provide that the leasehold can be transferred, mortgaged and sublet an unlimited number of times either without restricition 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 transferee, mortgagee or sublessee
- 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 sublessor

Property Considerations: (continued)

Properties with Legal Non-Conforming Zoning:
If the appraisal indicates a property's zoning is of a legal non-conforming (grandfathered use) nature, one of the following must be obtained:

- The appraiser must address the issue within the body of the appraisal, specifically state the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, OR
- A letter of addendum from the appraiser must be obtained addressing the issue, specifically stating the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, OR
- A letter from the county or governing municipality must be obtained stating the property may be rebuilt "as is" in the event of a loss.

Properties with Multiple Parcels as Security for the Mortgage:

- Parcels must be adjoining and zoned as "residential"
- Residence must be located on **one** parcel
- The adjoining parcel must have either no improvements or limited nonresidential improvements, such as a garage

Unique Properties:
Unique Properties, such as earth houses, geodesic domes, log houses, etc. are eligible provided the following:

- The appraiser has adequate information to develop a reliable estimate of market value.
- It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised (although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property)
- On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable estimate of market value. This will depend on the extent of the difference between the special or unique property and the more traditional types of houses in the market and the number of such properties that have already been sold in the market area
  - The property will be eligible, if recent comparable sales of the same design and appeal are not available, but the appraiser is able to determine sound adjustments for the differences between the comparables that are available and the subject property and to demonstrate the marketability of the property—based on older comparable sales, comparable sales in competing neighborhoods, the existence of similar properties in the market area, and any other reliable market data.
  - The property will be ineligible if the appraiser is not able to find any evidence of market acceptance and the characteristics of the property are so significantly different that he or she cannot establish a reliable estimate of market value.

Number of Properties Owned/Financed:

- Primary Residences:
  - There is no limit to the number of properties owned or financed
- Investment Properties and Second Homes:
  - The maximum number of financed properties, regardless of lender, for any Borrower(s) will be limited to ten (10) including the Borrower's primary residence. In addition, the maximum aggregate loan balance for any Borrower(s) on all second home/investment properties will be limited to $2,000,000, regardless of the investor. Privately financed properties and land contracts are also included in the maximums.

Appraisal/Survey/Inspection Requirements:

Appraisal:
The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FNMA standards.

- Date of appraisal report: Must be dated within 120 days but no more than 12 months before the origination date
- If the report is greater than 120 days old, the original appraiser or a qualified appraiser must certify that the subject property has not declined in value since the date of the original appraisal.
- Operating Income Statement is required whether or not the rental income will be used in qualifying the Borrower(s).
- Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition", prior to closing. A final inspection showing the work has been completed must be included in the file. Escrow holdbacks may be permitted. Refer to Procedures for details.

Declining Markets:
Maximum financing is not permitted in any instance in which property values are declining. In such cases, the LTV must not exceed an amount that is 5% less than the maximum LTV ratio allowed for the specific type of mortgage or product.

Manufactured Housing:

- The appraiser must identify the housing as a manufactured home and include the following: manufacturer's name; model name; year of manufacture and the serial number.
- The appraiser must address both the marketability and comparability of the manufactured home by using comparable sales of similar manufactured homes. If the property is new construction at least one of the required comparables must be a re-sale.
- 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 manufactured homes.
  - ⇒ The appraiser must also explain why site-built housing or different type of factory-built housing is being used for the one comparable sale and to make appropriate adjustments.
  - ⇒ The appraiser may analyze and use older sales or sales in competing markets, so long as the appraiser's analysis supports the opinion of value.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of a factory-built home.
- If the appraiser is unable to find two comparable sales of similar manufactured homes, the mortgage is not eligible for delivery to Fannie Mae since the market value of the property cannot be adequately measured and supported.

Survey:
If the title company insuring the mortgage requires a survey to remove exception to survey matters, the survey must conform to the requirements of the title insurance company's standards, or any applicable legal standards relating to surveys.

A copy of the survey, whether new or existing, is required to be in the closed loan package.

Inspection:
Inspections may be required at the discretion of the Underwriter or Appraiser.

Escrow:

An escrow account must be established for real estate taxes, hazard insurance and if applicable, private mortgage insurance.

The escrow account may be waived for real estate taxes and hazard insurance for loans with LTVs of 80% or less, subject to state restrictions. An additional fee may be required, please refer to your rate sheet.

Escrows for Postponed Improvements:

Refer to Procedures.

Private Mortgage Insurance Requirements:

Private mortgage insurance will be required on all loans with LTV's in excess of 80% except when utilizing the No MI Investment Property Option. See Terms, Program Types, Investor/SSI Code Section of these guides for Investor Codes specific to the No MI Investment Property Option.

Standard MI Coverage is required unless the Desktop Underwriter Feedback Certificate indicates the mortgage is eligible for Reduced MI. **Please note: Lower-Cost MI cannot be selected even if the Feedback Certificate indicates the loan is eligible.**

Standard MI Coverage:

Term	LTV Ratio	Mortgage Insurance Coverage Required
25 and 30 Year Fixed Rate Mortgages and All Balloon Mortgages	80.01 – 85%	12%
	85.01 – 90%	25%
	90.01 – 95%	30%
15 and 20 Year Fixed Rate Mortgages	80.01 – 85%	6%
	85.01 – 90%	12%
	90.01 – 95%	25%

Delegated Underwriting Authority:

NCM does not permit their staff Underwriters to use their Delegated Underwriting Authority for MI on manufactured homes. A full package must be sent to the MI Company for MI Approval. As always, contact your MI Company for restrictions on their Delegated Underwriting program.

Financed Mortgage Insurance Premiums:

- Restricted to 1-unit Primary Residences or Second Homes only, and may only be used for purchase and limited cash-out transactions
- Mortgage Insurance coverage is based on the LTV figured from the loan amount excluding the financed MI.
- The loan amount including the financed MI premium cannot exceed program loan amount/LTV as shown on pages 1 and 2.
- Underwriting guidelines adhere to the LTV figured from the loan amount including the financed MI.

Reduced MI Coverage:

Term	LTV Ratio	Reduced MI Coverage
> than 20 years	85.01 – 90%	17%
	90.01-95%	25%

Reduced MI Coverage Requirements:

- Loan must have received an Approve/Eligible through Desktop Underwriter
- The Feedback Certificate from Desktop Underwriter must indicate the Mortgage is eligible for Reduced MI
- Fixed Rate Mortgages only. (Balloon Mortgages are ineligible)
- Loan must amortize over a period greater than 20 years
- Only 1-2 unit primary residences are eligible
- Only Purchases and Limited Cash-Out Refinances are permitted

Private Mortgage Insurance Requirements: (continued)

No MI Investment Property Option: Please use the specific Investor/SSI codes for this program listed in the Terms, Program Types, Investor/SSI Code section of these guides. The following requirements must be met for this option:

- Minimum Credit Score: 700
- Maximum of 5 loans to an individual Borrower
- Full Documentation only
- Purchase and No Cash-out Refinances only

Lender Paid MI:

- Only Full/Alt Documentation loans are permitted
- Purchase, No Cash-Out and Cash-Out refinances are permitted
- Primary and second homes only
- Minimum Credit Score 660
- TMO Users must use one of the following codes:

- **15 Year Term:**	**INVESTOR CODE**	**SSI CODE**
LTV 80.01-85%	LPMI8515	985
LTV 85.01-90%	LPMI9015	986
LTV 90.01-95%	LPMI9515	987
- **30 Year Term:**	**INVESTOR CODE**	**SSI CODE**
LTV 80.01-85%	LPMI8530	982
LTV 85.01-90%	LPMI9030	983
LTV 90.01-95%	LPMI9530	984

- AT Users must use one of the following codes:

- **15 Year Term:**	**INVESTOR CODE**
LTV 80.01-85%	FN8515
LTV 85.01-90%	FN9015
LTV 90.01-95%	FN9515
- **30 Year Term:**	**INVESTOR CODE**
LTV 80.01-85%	FN8530
LTV 85.01-90%	FN9030
LTV 90.01-95%	FN9530

- Rate adjustments apply. Refer to your rate sheet for adjustments
- See the Procedures for additional information regarding LPMI

Approved companies:
GE, UG, PMI, MGIC, RMIC and Radian

Please make sure to consult the MI Company's rate card or Representative for all adjustments to the rate that may apply.

Refinance Requirements:

Limited Cash-Out Refinance:

- The mortgage amount may include only the following:
  - The pay off of the outstanding principal balance of an existing first mortgage, regardless of age
  - The pay off of the outstanding principal balance of any existing subordinate mortgage *that was used to acquire the subject property*, regardless of age
    - ⇒ Written confirmation (such as the HUD-1) must be obtained to show the proceeds of an existing subordinate lien were used to fund part of the purchase price of the subject property.
  - The financing of closing costs (including prepaid expenses), 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 $2000
  - Payoff of another's property owner's interest in the property:
    - ⇒ The mortgaged property was owned by both parties for at least 12 months preceding the date of the mortgage application (Parties who inherit an interest in the property do not have to satisfy this requirement.)
    - ⇒ Documentation is obtained to evidence that both parties occupied the property as their principal residence (Parties who inherit an interest in the property do not have to satisfy this requirement.) Documentation may include driver's license, bank statements or credit card receipts.
    - ⇒ Both parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction.
    - ⇒ The borrower acquiring the sole ownership must not receive any of the proceeds of the refinance.
    - ⇒ The borrower acquiring sole interest must be able to qualify for the mortgage.
- Special requirements for properties located in declining markets:
  - If the mortgage being refinanced is currently owned by FNMA, the new refinance mortgage is limited to the unpaid principal balance of the existing first mortgagee, rounded up to the next $100
  - If the mortgage being refinanced is not currently owned by FNMA, the maximum LTV must be reduced by 5% and the new refinance mortgage is limited to the unpaid principal balance of the existing first mortgagee, rounded up to the next $100

Cash-Out Refinance:

- The mortgage amount may include:
  - The pay off of the outstanding principal balance of an existing first mortgage, regardless of age
  - The pay off of the outstanding principal balance of any existing subordinate mortgage, regardless of age
  - The financing of closing costs (including prepaid expenses)
  - Cash back to the borrower for any purpose. However, cash back to the Borrower cannot be used to satisfy any reserve requirements that must be met (if applicable).

Streamlined Refinance:

The following requirements are for all FNMA Streamline Refinances:

- New loan must receive an Approve from Desktop Underwriter
- Assets input into DU must be verified
- The mortgage amount may include only the following:
  - The pay off of the outstanding principal balance of an existing first mortgage, regardless of age
  - The pay off of the outstanding principal balance of any existing subordinate mortgage *that was used to acquire the subject property*, regardless of age
    - ⇒ Written confirmation (such as the HUD-1) must be obtained to show the proceeds of an existing subordinate lien were used to fund part of the purchase price of the subject property.
  - The financing of closing costs (including prepaid expenses), 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 $2000

Refinance Requirements: (continued)

Streamlined Refinance: (continued)

- The new mortgage must meet the following requirements:
  - Be a fixed rate, level-payment conventional first mortgage
  - The property must be a 1-2 unit family primary residence or a 1-unit second home
  - The Borrowers must be the same as those on the existing mortgage. However, if one of the Borrowers has died or if the Borrowers have divorced, the remaining Borrower will be considered as long as he/she qualifies for the mortgage.
  - Mortgage insurance, if applicable, must be at standard coverage levels. If the existing loan being refinanced had Reduced MI Coverage, the same coverage level can be used on the new loan.
- The existing mortgage must be a conventional loan and be one of the following:
  - A fixed-rate, adjustable-rate or balloon mortgage
- Special requirements for properties located in declining markets:
  - If the mortgage being refinanced is currently owned by FNMA, the new refinance mortgage is limited to the unpaid principal balance of the existing first mortgagee, rounded up to the next $100
  - If the mortgage being refinanced is not currently owned by FNMA, the maximum LTV must be reduced by 5% and the new refinance mortgage is limited to the unpaid principal balance of the existing first mortgage, rounded up to the next $100
- Documentation required:
  - A new loan application (Form 1003)
  - A new merged "in-file" credit report
  - A mortgage payment history for the current mortgage (if not on the credit report)
  - A current pay statement for salaried Borrowers
  - Tax returns for previous year for Self-Employed Borrower
  - Either a new appraisal, or the original appraisal (or DU Property Inspection report) from the existing mortgage must be used to support the property value. If the underwriter cannot warrant that the property value has not declined, a new appraisal must be ordered. (See below for special requirements for properties in declining markets).
  - If the original appraisal is being used, Condo and PUD projects do not have to be re-warranted.

The following requirements are for all "Option 1" Streamline Refinances:

- NCMC must be the current Servicer of the loan being refinanced
- Please see the Procedures for instructions on requesting information from the original file.
- Refer to the Streamline Refinance LTV/Loan Amount Chart for maximum LTVs and Loan Amounts. Note: If any of the proceeds from the transaction are used to pay off a subordinate lien, the maximum LTV/CLTV/HCLTV is limited to 90%.
- The existing mortgage cannot have been originated as an Expanded Approval loan.
- The existing mortgage does not have to be sold to FNMA, but must have been underwritten to Standard FNMA guidelines and have been eligible for delivery to FNMA

The following are requirements for all "Option 2" Streamline Refinances:

- NCMC is not required to be the current Servicer of the loan being refinanced
- Refer to the Streamline Refinance LTV/Loan Amount Chart for maximum LTVs and Loan Amounts.
- The Borrower must have no mortgage late-payments 30 or more days late in the most recent 12 months

Subordinate Financing:

Calculating CLTV (Combined Loan to Value) and HCLTV (Home Equity Combined Loan to Value) ratios:

CLTV: Divide the sum of the first lien mortgage amount and the disbursed amount of the HELOC and any other secondary financing by the lower of the sales price or appraised value.

HCLTV: Divide the sum of the first lien mortgage and the total HELOC credit line limit and any other secondary financing by the lower of the sales price or appraised value.

Subordinate financing must conform to the following criteria:

- Must provide for regular payments that cover at least the interest due
- Negative amortization is not permitted.
- Wraparound terms that combine the indebtedness of the first mortgage with that of the subordinate mortgage are not permitted.
- Must require interest at market rate, except when the property seller holds the subordinate lien then the interest rate may be below market rate (but will be considered a sales concession). (Market rate when not associated with a HELOC is defined as, one that is not more than 2% below the posted net yield posted by FNMA in effect for second mortgages at the time the subordinate financing is closed.)
- No prepayment penalty
- If the first mortgage is subject to a buydown plan, the payment for the subordinate financing must be a fixed amount.
- Other than HELOCs, when the interest rate on the subordinate financing is variable, the monthly payment must remain constant for a twelve month period, then change at the end of the 12 month period but no more than a 1% increase in interest rate is permitted.
- If the subordinate financing will not amortize under a level monthly payment plan, it may not have a maturity or balloon payment date of less than five years (although this is not required if the amount of the subordinate debt is minimal relative to the Borrower's financial assets and/or credit profile).
- If the Borrower's employer provides the subordinate financing, the loan may either be an unsecured loan or a secured mortgage and does not require regular payments of either P & I or interest only. The financing terms may require full repayment of the debt should the employee voluntarily terminate his/her employment for reasons other than those related to disability before the maturity date of the subordinate financing. The loan may be structured in one 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
  - Forgiveness of the debt over time—although there may not be a balloon payment that comes due prior to the maturity date of the first mortgage

Documentation Options:

TMO Users: Refer to Procedures for information regarding coding the Qualifying Income Field.
Only Full/Alt documentation is available on this product.

Underwriting:

- Generally, all loans will be underwritten to FNMA guidelines unless otherwise stated in the underwriting parameters outlined in these guidelines.
- The use of FNMA waivers is permitted with this product. When utilizing a FNMA waiver, the loan must be registered under the FNMA-Only investor codes.
- We have delegated underwriting authority.
- Manually Underwritten Mortgages are defined as loans that meet one of the following:
  - A loan that never was submitted through DU
  - A loan that was submitted through DU but received an "Out of Scope" message

Submission:

NCM has delegated underwriting authority.
Submit your original package to your local underwriting center.

Use of Automated Underwriting:

Loans submitted to Desktop Underwriter under Enhanced Eligibility LTV/CLTVs must receive an Approve or Refer Recommendation. (See Enhanced Eligibility of the Credit Score Section below for manually underwritten loans.)

- The use of LP or DU is required on this product.
- The following charts detail how loans should be registered in accordance with the NCMC Trading Memo (posted in the Fannie Mae Underwriting Guidelines folder) and Mandatory AU Usage Memo (posted in the Credit Policy folder):

Loans with FICOs <620 and/or DTIs >50%

	NO DU	DU APPROVE	DU REFER	DU EA/TPR
NO LP	Must Run AUS	FNMA Only	FNMA Only	EA/TPR
LP ACCEPT	*C30 Family/FH	*C30 Family/FH	*C30 Family/FH	*C30 Family/FH
LP A MINUS	A Minus	FNMA Only	A Minus or FNMA Only	A Minus or EA/TPR
LP CAUTION	Must Run DU	FNMA Only	FNMA Only	EA/TPR

*TMO Users: C30 Family; AT Users: FH Codes

Loans with FICOs ≥620 and DTIs ≤50%

	NO DU	DU APPROVE	DU REFER	DU EA/TPR
NO LP	Must Run AUS	*C30 Family/FH	FNMA Only	EA/TPR
LP ACCEPT	*C30 Family/FH	*C30 Family/FH	*C30 Family/FH	*C30 Family/FH
LP A MINUS	A Minus	*C30 Family/FH	A Minus or FNMA Only	A Minus or EA/TPR
LP CAUTION	Must Run DU	FNMA Only	FNMA Only	EA/TPR

*TMO Users: C30 Family; AT Users: FH Codes

- Any documentation relief can be utilized on this product.
- Any appraisal relief can be utilized on this product (The only exception to this would be an offering through DU to pay a property inspection waiver in lieu of obtaining an appraisal which is unacceptable.).
- Any A Minus offerings cannot be used under this product. Refer to the A Minus guidelines in the Product Manual if an A Minus offering is received.
- Any Expanded Approval/Timely Payment Rewards offerings cannot be used under this product. Refer to the Expanded Approval/Timely Payment Rewards guidelines if an Expanded Approval/Timely Payment Rewards offering is received.

Credit Scores:

Standard Eligibility:

The minimum credit score for this program is 620. However, for 1 unit primary residences under the Fixed Rate Mortgage program, if the HCLTV is 100%, a minimum FICO of 680 is required (700 for self-employed Borrowers).

Underwriting: (continued)

Credit Scores: (continued)

Enhanced Eligibility:

If the loan is manually underwritten, the Borrower must meet all of the following in order to be eligible for Enhanced LTVs/CLTVs:

- Borrower has no previous bankruptcy or foreclosure related action in his/her credit history.
- Borrower has no mortgage delinquency in the last 12 months of his/her credit history.
- Borrower has a minimum cash reserve of at least 2 months (or 6 months for investment properties)
- The mortgage is secured by 1-2 family principal residence, a 1 family second home or 1-2 family investment property
- The mortgage has a representative minimum FICO score as follows:

Transaction Type	Property	Product Type	FICO Score Required – Salaried Borrowers	FICO Score Required – Self-Employed Borrowers
Purchase or Limited Cash-Out Refinance	2 unit primary residences	Fixed rate only	680	700
	1 unit second homes	Any product	700	720
	1-2 unit primary residences	Balloon Mortgages	700	720
Cash-Out Refinances	1-2 unit primary residences	Any product	720	740
	1 unit second homes	Any product	720	740
All Transaction Types	1-2 unit investment properties	Any product	720	740

Selecting the Score:

We require the "Middle/Lower then Lowest" method to be used when selecting the credit score.

If three usable FICO scores are received for a Borrower, the Underwriting Score selected would be the middle score. If two of the scores are the same, that score should be used.

If only two usable FICO scores are received for a Borrower, the lowest of those two scores would be that Borrower's Underwriting Score.

This procedure to establish Underwriting Scores should be used for each Borrower on the loan. Once the Underwriting Score for each Borrower is determined, the lowest of these scores should be used (if more than one Borrower is on a loan) to determine if minimum FICO requirements are met as listed in the Credit Score Requirements section above.

Bankruptcy/Foreclosure:

FNMA will require an elapsed time of 4 years for an applicant to re-establish a credit record. Elapsed time is measure by comparing the date of an application for a new mortgage loan to:

- The date a Chapter 7, 11, or 12 bankruptcy was discharged
- The date a Chapter 13 repayment plan was successfully completed and the bankruptcy discharged
- The date of a foreclosure sale, or
- The date a deed-in-lieu was executed.

The following are the exceptions to this policy:

- FNMA will consider a shorter elapsed time of 2 years to be an acceptable interval for re-establishing a credit record when the previous action was a Chapter 13 bankruptcy, regardless of the reasons that contributed to the previous bankruptcy.
- FNMA will consider a shorter elapsed time of 2 years as an acceptable interval for re-establishing a credit record if the previous action related to a foreclosure, deed-in–lieu, or Chapter 7, 11, or 12 bankruptcy-- as long as the applicant can satisfactorily document that the bankruptcy or foreclosure-related action resulted from extenuating circumstances. If the applicant cannot provide satisfactory documentation of the extenuating circumstances, four full years must have elapsed.

Credit Scores: (continued)

Extenuating Circumstances:

Extenuating Circumstances are created by non-recurring events that are beyond the applicant's control, which result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. However, extenuating circumstances cannot be solely defined by the event; they must take into consideration the interrelationship between the event, the severity of the resulting hardship, and the extent of the applicant's efforts to resolve the situation. For example, a job layoff (the event) in itself should not automatically be considered an extenuating circumstance. If however, the unemployment that results from a job layoff was prolonged and the loss of income was significant in relation to the applicant's obligations and available assets at the time of the layoff, then the layoff can be considered as an extenuating circumstance.

Examples of documentation that can be used to support extenuating circumstances include the following:

- Applicable bankruptcy documents or a copy of appropriate documentation that will establish the date of the previous foreclosure or deed-in-lieu.
- If the foreclosure or deed-in-lieu was completed or a bankruptcy was discharged within the last 4 years, the applicant should submit a written statement to explain the circumstances that contributed to the bankruptcy or foreclosure-related action and, if applicable, provide documentation to support his or her claim of extenuating circumstances.
- Copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc. can be used to confirm the event.
- Copies of insurance papers or claim statements, property listing agreements, lease agreements or tax returns (covering the periods prior to, during, and after a loss of employment), can be used to illustrate factors that contributed to the applicant's inability to work his or her way through the problems that resulted from the event.

Re-established Credit History:

When the applicant's previous credit history included a bankruptcy filing or foreclosure-related action, all of the accounts in the applicant's credit report must be current as of the date of the mortgage application. In addition, the applicant's credit record under the re-established credit history must include:

- A minimum of four credit references, with at least one of the references being a traditional credit reference and one of the references being housing-related (if rental payments were not reported to the credit repositories, provide copies of bank statements or cancelled checks for the most recent 12 month period). Three of the four credit references must have been active in the 24 months preceding the date of the mortgage application;
- No more than two installment or revolving debt payments that were 30 days past due in the last 24 months;
- No installment or revolving debt payments 60 or more days past due since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action;
- No housing debt payments past due since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action; and
- No new public records for bankruptcies, foreclosures, deeds-in-lieu, pre-foreclosure sales, unpaid judgments or collections, garnishments, liens, etc. since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action.

Credit Scores: (continued)

Comprehensive Risk Assessment (For All Manually Underwritten Mortgages):

Fannie Mae has developed underwriting guidelines to assist the Underwriter in making a more comprehensive assessment of the various risk factors when manually underwriting a mortgage. The Underwriter must thoroughly assess the default risk of the mortgage by using the comprehensive risk assessment approach to Underwriting.

Under the comprehensive risk assessment approach, certain key elements—called Primary Risk and Contributory Risk factors—work together to form the overall level of default risk that is present in each mortgage application. By identifying the level of risk for each of these elements and examining how the elements relate, an Underwriter can determine the comprehensive risk associated with a mortgage application.

The first step in doing this is to complete an evaluation of the Primary Risk factors (see below) and determine whether those factors represent a low, moderate, or high risk. The evaluation of the Primary Risk factors will serve as the preliminary comprehensive risk assessment of the mortgage. Once the level of Primary Risk has been established, the Underwriter must evaluate the mortgage default risk associated with each of the Contributory Risk factors (see below). The Underwriter should then use its evaluations of each of the Contributory Risk factors to supplement its preliminary comprehensive risk assessment so that it can make a final comprehensive risk assessment for the mortgage.

Primary Risk Factors:

Two characteristics form the primary risk of the mortgage application—the combined equity investment and the credit history for all of the Borrowers who are applying for the mortgage. These two characteristics are the most significant factors in determining the default risk.

- Equity investment in a mortgage is measured by the LTV (or CLTV) ratio.
- Credit history can be defined in several ways. Fannie expects the Underwriter to use credit scores to assist with the assessment of credit risk because a credit score objectively evaluates all the characteristics in a Borrower's credit file. However, there may be instances in which an Underwriter may not be able to rely on credit scores, and will need to perform a comprehensive review of each Borrower's credit reports.

The Primary Risk of a mortgage may be defined as being either low, moderate, or high risk. The simplest way of categorizing this is to compare the Primary Risk factors for the mortgage to those we consider as representing a moderate risk. To the extent that the credit profile falls outside of the approximate range Fannie Mae associates with a moderate Primary Risk, the Underwriter will need to make appropriate adjustments in its risk assessment. If the credit profile for the mortgage falls within Fannie's range, the mortgage has a moderate Primary Risk.

Moderate Primary Risk:

Fannie considers the following combinations of Primary Risk characteristics to be representative of a moderate Primary Risk. Keep in mind that as the LTV (or CLTV) ratio for the mortgage reaches the high-end of our LTV/CLTV ratio range, the credit score similarly must be at the high–end of the credit score range:

- Mortgages that have LTV/CLTV ratios in the range from 90.01 to 100% and credit scores (as reflected by the representative credit score—see Selecting the Score Section in these guides) in the mid-600 to low-700 range. For example, if the LTV ratio for a mortgage is 100%, the credit score must be in the low-700 range in order for the risk to be considered as moderate.
- Mortgages that have LTV/CLTV ratios from 80.01 to 90% and credit scores in the low-600 to mid-600 range. For example, if the LTV ratio for a mortgage is 90%, the credit score must be in the mid-600 range in order for the risk to be considered as moderate.
- Mortgages that have LTV/CLTV ratios of 80% or less and credit scores in the low-600 range.

Low and High Primary Risk:

Loans falling outside of the Moderate Primary Risk ranges identified above will fall into either low or high Primary Risk categories (or some degree thereof). For example, a mortgage with a 95% LTV ratio with a credit score of 750 would be considered a low Primary Risk. On the other hand, a mortgage with an LTV of 95% and a credit score of 640 would be considered a high Primary Risk.

Varying Degrees of Low, Moderate and High Primary Risk:
There are varying degrees of low, moderate, or high Primary Risk. For example, an Underwriter might consider a mortgage with an 80% LTV with a 680 credit score as having a "marginally" low Primary Risk, whereas it might consider a similar mortgage with the same LTV ratio and a much stronger credit score of 750 as having a "significantly" low Primary Risk.

Contributory Risk Factors:
Contributory Risk Factors are those risk factors that are not of sufficient weight by themselves to use as the basis for reaching an underwriting decision. However, when combined with Primary Risk factors or other Contributory Risk factors, they may materially influence the default risk of the mortgage. There are many risk factors, however the Contributory Risk factors that Fannie has identified as having the greatest influence on mortgage performance are: liquid financial reserves, employment classification, mortgage term, product type, type of property, transaction type, presence of Co-Borrowers, total debt-to-income ratio, previous mortgage delinquency and prior bankruptcy or foreclosure. Each of these Contributory Risk factors is explained below.

There are other risk factors that affect default risk—such as occupancy status or the use of gift funds for down payment or closing costs, but the influence of these factors is taken into consideration when establishing mortgage eligibility criteria, rather than in the Underwriting process.

Contributory Risk Factors(continued):
The Underwriter should assign one of the following risk assessments to each Contributory Risk Factor:

- Satisfies basic risk tolerances, which means that the characteristics associated with the particular Contributory Risk factor neither increase or decrease risk.
- Decreases risk, which means that the characteristics associated with the particular Contributory Risk factor will decrease the likelihood of a mortgage default.
- Significantly decreases risk, which means that the characteristics associated with the particular Contributory Risk factor will significantly decrease the likelihood of a mortgage default.
- Increases risk, which means that the characteristics associated with the particular Contributory Risk factor will increase the likelihood of a mortgage default.
- Significantly increases risk, which means that he characteristics associated with the particular Contributory Risk factor will significantly increase the likelihood of a mortgage default.

Below is a breakdown of each of the Contributory Risk Factors that Fannie has identified as having the greatest influence on mortgage performance:

- Liquid Financial Reserves:
  The comprehensive risk assessment approach to underwriting considers the adequacy of the Borrower's financial reserves relative to other risk factors. In cases in which high Primary Risk factors or other high Contributory Risk factors are present, two months of reserves may not be adequate to offset other risks. In other instances, two months of reserves will be more than adequate relative to the other risk factors that are present.

  Use the following as general guidance on the nature and significance of the default risk associated with certain levels of reserves:
  - Satisfies basic risk tolerances: Use this assessment when the Borrower has 2 months liquid financial reserves.
  - Decreases risk: This risk assessment may be used in a number of different situations since there is no specific range that defines when a certain amount of reserves begins to decrease risk. Generally, 12 months of reserves should be considered as a factor that decreases the likelihood of a mortgage default.
  - Significantly decreases risk: This risk assessment may be used in a number of different situations since there is no specific range that defines when a certain amount of reserves begins to decrease risk. Generally, 25 or more months of reserves should be considered as a factor that significantly decreases the likelihood of mortgage default. Reserves of more than 50 months are particularly significant; therefore, the Underwriter may use them to offset additional layers of risk.
  - Increases risk: Use this assessment when the Borrower has 1 months liquid reserves.
  - Significantly increases risk: Use this assessment when the Borrower has no liquid reserves.

Underwriting: (continued)

Credit Scores: (continued)

- Employment Classification:
  The two employment classifications are salaried wage earners (including those Borrowers paid on a commission basis) and self-employed individuals. Self-employment introduces an additional layer of risk that when all other risk factors are held constant, the default rate for a self-employed Borrower is significantly higher than that for a salaried Borrower.

  If any of the Borrowers are self-employed, this should be considered as a factor that increases the likelihood of mortgage default. However, if the business has no debt or other liabilities and the self-employment income represents an insignificant portion of the total qualifying income, the Underwriter may define the self-employment as a factor that satisfies our basic risk tolerances since it neither increases or decreases the comprehensive risk of the mortgage.

  The evaluation of employment classification is intended to address the nature of the Borrower's employment, not whether the income from that employment is stable.
- Mortgage Term:
  A faster rate of growth in a Borrower's equity in the property affects loan performance. The default rate of mortgages that have terms of less than 30 years (particularly those with 15-year terms) is substantially lower than that for mortgages with 30-year terms. When assigning a risk assessment to the "mortgage term" Contributory Risk factor, the Underwriter should use the following as guidance:
  - Satisfies basic risk tolerances: This risk assessment should be used if the mortgage has a term of 25 or 30 years.
  - Decreases risk: This risk assessment should be used with the mortgage has a term of 20 or less years.
- Product Type:
  The more stable and predictable the Borrower's mortgage payment, the less the risk of default for the mortgage. When assigning a risk assessment to the "product type" Contributory Risk factor, the Underwriter should use the following as guidance:
  - Satisfies basic risk tolerances: This risk assessment should be used for mortgages that have stable and predictable payments such as fully amortizing fixed-rate mortgages and fully amortizing adjustable rate mortgages that have extended fixed-payment periods of three or more years.
  - Increases risk: This risk assessment should be used for mortgages that have predictable and scheduled payment changes or maturity dates such as balloon mortgages and mortgages with temporary buydowns.
  - Significantly increases risk: This risk assessment should be used for mortgages that have less stable or less predictable payments that can change over a relatively short period of time such as fully amortizing adjustable rate mortgages that have initial fixed-payment periods of one year or less.
- Type of Property:
  Although not historically recognized as a default risk factor, the type of property can be predictive of the likelihood of mortgage default. When assigning a risk assessment to the "type of property" Contributory Risk factor, the Underwriter should use the following as guidance:
  - Satisfies basic risk tolerances: This risk assessment should be used for a mortgage secured by a one-family property that is not a condo, co-op or manufactured home.
  - Increases risk: This risk assessment should be used for a mortgage that is secured by a two-family property, a condo, a co-op or a manufactured home.
  - Significantly increases risk: This risk assessment should be used for a mortgage secured by three or four-family properties because a mortgage that is secured by this type of property is significantly more likely to default than a mortgage secured by a one-family property. The degree of risk associated with this type of property will exceed that for any of the other Contributory Risk factors that the Underwriter categorizes as significantly increasing risk in its risk assessment.

Underwriting: (continued)

Credit Scores: (continued)

- Transaction Type:
  Generally a purchase transaction represents less risk than a refinance transaction. Furthermore, the more the new mortgage amount for a refinance transaction increases as a percentage of the unpaid principal balance of the existing mortgage, the greater the default rate—regardless of whether the additional money will be used to pay off subordinate liens or to provide cash to the Borrower. When assigning a risk assessment to the "transaction type" Contributory Risk factor, the Underwriter should use the following as guidance:
  - Satisfies basic risk tolerances: This risk assessment should be used when a mortgage is closed as either a purchase money mortgage or a refinance transaction that involves a minimal increase (≤ 5%) in the unpaid principal balance of the existing mortgage.
  - Decreases risk: There is no specific range that defines when a certain percentage decrease in the unpaid principal balance of the existing mortgage begins to decrease risk. Generally, a modest decrease such as a decrease of approximately 10% can be considered as a factor that decreases the likelihood of a mortgage default.
  - Significantly decreases risk: This risk assessment shouldd be used when there is a substantial decrease (more than 10%) in the unpaid principal balance of the existing mortgage.
  - Increases risk: There is no specific range that defines when a certain percentage increase in the unpaid principal balance of the existing mortgage begins to increase risk. Generally, a more material increase in the unpaid principal balance—such as an increase of approximately 10%--can be considered as a factor that increases the likelihood of a mortgage default.
  - Significantly increases risk: This risk assessment should be used when there is a substantial increase—such as an increase of approximately 20%--in the unpaid principal balance of the existing mortgage.
- Presence of Co-Borrowers:
  When controlling for all other risk factors, a mortgage with two or more Borrowers tends to perform better than a mortgage that has only one Borrower. This is particularly true when the Co-Borrower has a strong credit history. The representative credit score (see Selecting the Score section of these guides) for the mortgage is the basis for the credit history component of the Primary Risk evaluation. This means that the applicable credit scores for the other Borrowers are equal to or greater than the "representative" credit score for the mortgage. When assigning a risk assessment to the "presence of Co-Borrowers" Contributory Risk factor, the Underwriter should use the following as guidance:
  - Decreases risk: This risk assessment should be used when the credit score for the Co-Borrower is indicative of a relatively strong credit history—such as a credit score in the upper-600 range.
  - Significantly decreases risk: This risk assessment should be used when the credit score for the Co-Borrower is indicative of a decidedly strong credit history—such as a credit score of 700 or greater.
- Total Debt-to-Income Ratio:
  There is a meaningful correlation between the Borrower's total debt-to-income ratio and default risk, but there is no significant relationship between the incidence of default and the monthly housing expense-to-income ratio. When assigning a risk assessment to the "total debt-to-income ratio" Contributory Risk factor, the Underwriter should use the following as guidance:
  - Satisfies basic risk tolerances: This risk assessment should be used when the Borrower has a total debt-to-income ratio in the mid-30% range.
  - Decreases risk: This risk assessment should be used when the Borrower has total debt-to-income ratios in the mid-20% range.
  - Significantly decreases risk: This risk assessment should be used when the Borrower has total debt-to-income ratios of 10% or less.
  - Increases risk: This risk assessment should be used when the Borrower has a total debt-to-income ratio in the low-to mid-40% range.
  - Significantly increases risk: This risk assessment generally should be used when the Borrower has a total debt-to-income ratio of 45% or greater.

Credit Scores: (continued)

- Previous Mortgage Delinquency:
  A Borrower who has been 30 days or more delinquent in making his or her mortgage payments in the past is more likely to default on a new mortgage than a Borrower who has no delinquencies in his or her mortgage payment history—even when the Borrower have similar credit scores (and all other risk factors are equal). When assigning a risk assessment to the "previous mortgage delinquency" Contributory Risk factor, the Underwriter should use the following as guidance:
  - Satisfies basic risk tolerances: This risk assessment should be used when the Borrower had one mortgage payment in the most recent 24-month period that was 30 days late(as long as the late payment did not take place within the most recent 12 months).
  - Decreases risk: This risk assessment should be used when the Borrower has a mortgage payment history of 24 months (or longer) and there is no evidence of delinquent payments during that time frame.
  - Increases risk: This risk assessment should be used when the Borrower had one mortgage payment in the most recent 12-month period that was 30 days late.
  - Significantly increases risk: This risk assessment should be used when the Borrower has a mortgage payment history of 24 months (or longer) and had two or more payments in the most recent 24-month period that were 30 or more days late or if the Borrower had any 60-or 90- day mortgage lates in the most recent 24 months. Delinquencies that occurred earlier than the most recent 24-month period may contribute to an increased likelihood of default, depending on the recency and severity of the delinquency. The greater the severity and the more recent the delinquency, the more likely it is that the Underwriter should consider the Borrower's mortgage payment profile as significantly increasing the risk of default.
- Prior Bankruptcy or Foreclosure:
  The presence of a prior bankruptcy or foreclosure in a Borrower's credit history is evidence of significant derogatory credit, thus it increases the likelihood of a future mortgage default. A Borrower whose credit history includes a prior bankruptcy filing or foreclosure is more likely to default on the mortgage obligation than a Borrower whose credit history does not include a bankruptcy or foreclosure, even if the Borrowers have similar credit scores. The more recent the bankruptcy or foreclosure, the higher the risk of default. Therefore, an Underwriter should consider the presence of a prior bankruptcy or foreclosure as an added risk element that can represent a significantly higher level of default risk. When assigning a risk assessment to the "prior bankruptcy or foreclosure" Contributory Risk factor, the Underwriter should use the following as guidance:
  - Increases risk: There is no specific range that defines when the elapsed time since the discharge of a prior bankruptcy or the completion of a foreclosure begins to increase risk. The more recent a bankruptcy or foreclosure was completed, the more significant the increase in the risk. A prior bankruptcy or foreclosure that was completed within the past seven years will increase the risk of a mortgage default. If the bankruptcy or foreclosure was completed between three and four years before the date the mortgage is underwritten, the Underwriter should consider the bankruptcy or foreclosure as representing an increased risk. However, the Underwriter may consider a bankruptcy or foreclosure that was completed or discharged four or more years before the date the mortgage is being underwritten as representing a marginal increase to the risk of default.
  - Significantly increases risk: This risk assessment should be used when the Borrower had a prior bankruptcy or foreclosure completed within the past three years.

Credit Scores: (continued)

<u>Final Comprehensive Risk Assessment:</u>
An Underwriter may use the following in determining the influence that Contributory Risk factors have on the comprehensive risk for the mortgage:

- Contributory Risk factors for which the Underwriter decided on a "satisfies basic risk tolerances" risk assessment will neither increase or decrease the level of risk for the mortgage. Therefore, the Underwriter's preliminary comprehensive risk assessment of the mortgage will not be affected by such Contributory Risk factors.
- Contributory Risk factors for which the Underwriter decides on an "increases risk" or "decreases risk" risk assessment can affect the preliminary comprehensive risk assessment for the mortgage. Generally, the presence of two or three Contributory Risk factors that "increase" or "decrease" risk will change the preliminary comprehensive risk assessment for the mortgage.
- Contributory Risk factors for which the Underwriter decides on a "significantly increases risk" or a "significantly decreases risk" risk assessment can result in a change in the preliminary comprehensive risk assessment for the mortgage even if there is no layering of risk.

The Underwriter should then formulate its opinion of the comprehensive risk for the mortgage by taking into consideration any layering of Contributory Risk factors, the significance of the Primary Risk factors, and the overall risks present in the mortgage application. The Underwriter's comprehensive risk assessment should be expressed in terms of the likelihood of a mortgage default, identifying it as low, moderate, or high. The Underwriter's opinion of the mortgage default risk, the assessment of the adequacy of the property as security for the mortgage, the determination of whether the mortgage satisfies Fannie's mortgage eligibility criteria, and the acceptability of the documentation in the mortgage file should all enter into the decision of whether or not it is appropriate to deliver the mortgage to Fannie.

<u>High Comprehensive Risk:</u>
A mortgage that has a high comprehensive risk is likely to have a high probability of default. The Underwriter should avoid combining high Primary Risk factors with high-risk Contributory Risk factors (such as minimal financial reserves, a higher-risk property, an adjustable-rate mortgage, or a very high total debt-to-income ratio). Instead the Underwriter should focus on using strengths (factors that decrease risk) in one area of the application to offset (or compensate for) weaknesses (factors that increase risk) in other areas.

The Underwriter must fully document the results of its comprehensive risk assessment (which includes preparing a statement to indicate the reasons the Underwriter determined that the mortgage could be delivered to Fannie despite its high comprehensive risk). If the Underwriter is not able to identify and document sufficient strength among the Contributory Risk factors to reduce the high comprehensive risk, it should not deliver the mortgage to Fannie.

<u>Moderate Comprehensive Risk:</u>
A mortgage that has characteristics that reflect a moderate comprehensive risk is likely to have a moderate probability of default. In view of this, the Underwriter should avoid the layering of numerous higher-risk Contributory Risk factors with a low Primary Risk evaluation. If high-risk Contributory Risk factors (such as no financial reserves, a high total debt-to-income ratio, an adjustable-rate mortgage that has interest adjustments annually or more frequently, or a three- or four-unit property) are layered, they tend to increase the risk associated with the mortgage and may move the comprehensive risk into the high-risk range.

An Underwriter must fully document the results of its comprehensive risk assessment (which includes preparing a statement to support its final underwriting decision).

<u>Low Comprehensive Risk:</u>
A mortgage that has characteristics that reflect a low comprehensive risk is likely to have a low probability of default. Although a mortgage application with a low Primary Risk can generally have a greater degree of higher-risk Contributory Risk factors, it is nonetheless important that an Underwriter not layer multiple higher-risk factors (even if it has determined that the comprehensive risk for the mortgage is low) since this could potentially increase the default risk associated with the mortgage.

Qualifying Ratio:

Borrower(s) debt-to-income ratio will be used for qualifying purposes.

- **Qualifying ratio** is 36% for all loans except the following:
  - 43% for the occupying co-borrower when a non-occupying co-borrower is used

- Loans with a debt-to-income ratio exceeding 50% that are submitted to Loan Prospector must receive an Accept or the loan must be registered under the FNMA-Only investor codes (as shown on page 2).

- Payments on installment debt, alimony, child support or separate maintenance payments will not have to be counted unless they extend beyond 10 months from the date of closing.

- Revolving debt must always be considered when qualifying the Borrowers, even if the debt is to be paid off and closed at (or prior to) loan closing.
  - If a minimum payment is not shown on the credit report a payment amount equal to 5% of the outstanding balance should be used.

  If a Borrower typically pays the full balance monthly on a revolving account, a payment would not have to be charged when qualifying the Borrower as long as sufficient documentation is supplied to evidence this. In addition, if there are revolving accounts that are open on the credit report but have zero balances as of the application date, a payment does not need to be charged when qualifying the Borrower.

- Debt from deferred installment loans – such as student loans and loans in forbearance – must be included in the qualifying ratio
  - If a minimum payment is not shown on the credit report a copy of the payment letter or forbearance must be obtained to determine the payment amount.

- The following liabilities must be paid off at (or prior to) closing:
  - Open 30-day charge accounts where the borrower is unable to demonstrate he/she either has sufficient assets to cover the unpaid balance or will receive reimbursement of the charges from his/her employer.
  - Collections or charged-off accounts with account balances greater than $250 individually, or $1000 collectively.

- Loans secured by financial assets owned by the borrower do not have to be included in qualifying ratios as long as the appropriate documentation is provided and the value of the asset showing on the loan application has been reduced by the amount of the loan.

- **Contingent Liabilities:**
  - Mortgage Liability Involving Settlement "Buyouts":
    When a Borrower's interest in a mortgaged property was "bought out" by another co-owner of the property, this contingent liability will not be required to be included in the debt-to-income ratios for the Borrower, provided documentation of the transfer of title is obtained.
  - Mortgage Assumptions:
    When a Borrower sells a mortgaged property that he/she owns and the property purchaser assumes the outstanding mortgage debt without a release of liability, this contingent liability does not have to be counted as part of the borrower's debt obligations, provided the property purchaser has a 12-month history of making regular, timely payments. Documentation must include evidence of title transfer, a copy of the formal, executed assumption agreement and a credit report indicating consistent, timely payments. If payments have not been timely during the most recent 12 month period, the mortgage debt must be included in the borrower's debt obligations. If the Borrower sells a mortgaged property to a purchaser assuming the mortgage with release of liability, a 12 month payment history is not required but the title transfer must be documented as previously described.

Underwriting: (continued)

Qualifying Ratio: (continued)

- Court-Ordered Assignments 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), this contingent liability does not have to be counted as part of the long-term debt that is used in determining the Borrower's total debt-to-income ratio as long as a copy of the applicable pages from the court order and the transfer of ownership is documented.
- Co-Signed Loans:
  When a Borrower has a contingent liability as the result of co-signing a loan to enable another party to obtain credit, but the Borrower is not the party who is actually repaying the debt, these debts are not required to be included in the Borrower's long-term debt, provided a satisfactory 12-month payment history can be documented showing the primary obligor making the payments with no delinquency. If it cannot be shown that the primary obligor has been satisfying the loan payments in full and/or on time, then the debt would have to be counted when calculating the Borrower's total debt-to-income ratio.

- Excluding Prior Home PITI Payment and/or Bridge Loan Payment From Monthly Debt to Income Calculation: This debt can be excluded provided all of the following are met:
  - A copy of the executed sales contract on the prior home is supplied
  - A copy of a lender's loan commitment to the buyer of the prior home is supplied (if the contract includes a financing contingency)
  - The Borrower must have reserves of 6 months' PITI payments covering any liens on the prior residence

Non-Occupant Co-Borrowers:

Non-Occupant Co-Borrowers are permitted with the following limitations:

- LTV is limited to 90%
- Occupying Borrowers debt-to-income ratio is limited to 43% (Unless an "Approve" is received from Desktop Underwriter)
- The Non-Occupant Co-Borrower must not have an interest in the property sales transaction
- 5% of the down payment must come from the occupying Borrower unless the LTV/CLTV is $\leq$ 80%

Income Requirements:

Refer to Chapter X, Section 402 of the Fannie Mae Seller Guide for detailed information on the income sources listed here and for any income type not referenced here. Refer to Section 503 for information on evaluating tax returns for self-employed borrowers.

Stable monthly income is the Borrower's verified gross monthly income from all verifiable sources which can reasonably be expected to continue for at least the next three years.

Income Requirements: (continued)

- **<u>Salaried Income:</u>** includes primary employment base earnings plus secondary income (i.e., bonuses, overtime, commissions, additional part-time employment or unemployment)
  - Income has to be verified for two years.
  - Documentation Required:
    - ⇒ Written VOE **<u>OR</u>**
    - ⇒ Paystubs for the most recent 30 day period showing year-to-date income; and
    - ⇒ W-2 forms for the past 2 years; and
    - ⇒ Verbal VOE
  - Commission income must be averaged using the last two years income to evaluate the Borrower's income qualifications. Commission income must be supported by signed federal income tax returns for the last two years.
  - Military Income can include flight or hazard pay, rations, clothing allowance, quarters allowance, and proficiency pay as part of stable income as long as its future continuance can be established
  - Overtime and bonus income can be used to qualify the applicant if the employer verifies the Borrower has received it for the last two years and indicates the overtime or bonus income will in all probability continue. The last two years must be averaged to determine the amount of income that can be considered in evaluating the Borrower's qualifications.
  - Part-time or second-job income can be used to qualify the applicant provided it can be verified as having been uninterrupted for the previous two years, and it has a strong likelihood of continuance. A minimum history of 12 months may be acceptable under the following circumstances:
    - ⇒ A 2-borrower situation where one borrower has always worked full-time and one has dedicated a period of time to parenting/homemaking, but has now returned to work on a part-time basis
    - ⇒ A full-time borrower has taken on a part-time job to compensate for a loss of overtime income that has been eliminated from his primary job
- **<u>Self-Employed Borrowers:</u>** A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed.
  - Business must have been established for a minimum of 2 years.
  - Must have a signed 4506.
  - Copies of the past two years' signed individual federal income tax returns.
  - Copies of the past two years' signed business income tax returns if the business is a corporation, as "S" corporation or a partnership. The requirement for business tax returns can be waived if:
    - ⇒ The borrower has been self employed in the same business for at least five years and
    - ⇒ The borrowers individual tax returns show an increase in self employment income over the last two years and
    - ⇒ The borrower is paying the down payment and closing costs with his/her own funds and is not using any funds from the business account.
  - A balance sheet and Profit and Loss statement is required if the loan application is dated more than 120 days after the end of the business' tax year.
- **<u>Alimony, Child Support and Separate Maintenance Payments:</u>**
  - May be considered as income provided the borrower has received it for the previous 12* months and the payments will continue for the next three years
  - Along with bank statements, court records, tax returns or cancelled checks one of the following items is required to document the income:
    - ⇒ A photocopy of the separation agreement/divorce decree that provides for the payments
    - ⇒ Any other legal document/agreement or court decree that describes the payment terms
    - ⇒ A copy of any applicable state law that requires such payments and specifies the conditions under which the payments must be made
  - *Alimony, child support or maintenance payments that have been received between 6 and 12 months on a regular and timely basis can be considered as stable income as long as the amount does not represent more than 30% of the total gross income that is used to qualify the Borrower

Income Requirements: (continued)

- **<u>Alimony, Child Support and Separate Maintenance Payments(continued):</u>**
  - Alimony, child support or maintenance payments that have been received for less than 6 months cannot be considered as stable income, but may be used as a compensating factor
- **<u>Non-Employed:</u>** This category includes many sources of passive income. For all tax-exempt income, the income can be grossed up 25%.
  - Retirement Income:
    - ⇒ Document with award letters, W-2 forms or recent bank statements to confirm the regular deposit of payments.
  - Social Security Income:
    - ⇒ Document with the award letter or copies of the borrower's last 12 months bank statements to confirm regular payments
    - ⇒ Benefits that have defined expiration dates must have a remaining term of at least 3 years from the date of the mortgage application
  - Notes Receivable:
    - ⇒ Copy of the Note is required to evidence amount and length of payments
    - ⇒ Payments must have been received for the past 12 months and must continue for 3 years from the date of mortgage application
    - ⇒ Document with deposit slips, tax returns or bank statements
  - Trust Income:
    - ⇒ Document with a photocopy of the Trust Agreement or the trustee's statement confirming the amount, frequency and duration of payments
    - ⇒ Must continue for 3 years from the date of mortgage application
  - Welfare or Unemployment Income:
    - ⇒ Document with letters or exhibits from the paying agency which must state the amount, frequency and duration of the payments
    - ⇒ A two year history of receipt is required
    - ⇒ Individuals who receive unemployment benefits as a part of their regular employment must provide 2 years tax returns as well
- **<u>Foster Care Income:</u>** Income from a state- or county-sponsored organization may be considered acceptable provided:
  - Borrower must have a 2-year* history of providing foster care under a recognized program, and is likely to continue to provide such services at a level that supports the amount of income needed to qualify for the mortgage
  - Document with letter from the organizations providing the income, tax returns, of copies of the borrower's deposit slips or bank statements that confirm the regular deposit of the payments
  - *A minimum 12-month history is acceptable, provided the income does not represent more than 30% of the total gross income that is used to qualify the borrower for the mortgage
- **<u>Rental Income:</u>**
  - **Subject Investment Property or 2-4 Unit Primary Residence:**
    - ⇒ Monthly operating income will be based upon current rents, as long as they don't exceed market rents. Current rents will be established based upon the net rental income from Schedule E (if property has been owned for more than one year), or from lease agreement(s) if the property has been owned for less than one year. Market rents will be based upon the Operating Income Statement (Form 216).
  - **Investment Properties and 2-4 Unit Primary Residences other than the subject property:**
    - ⇒ Monthly operating income will be based upon the net rental income from Schedule E (if property has been owned for more than one year), or from lease agreement(s) if the property has been owned for less than one year.

Underwriting: (continued)

Income Requirements: (continued)

- **Trailing Spouse Income:** A Trailing Co-Borrower is a Borrower other than the relocating employee who resides with the relocating employee, was employed at the previous location, and intends to seek employment at the new location. Use of Trailing Spouse Income is acceptable as long as the following requirements are met:
  - Primary residence only
  - Minimum FICO is 680
  - The trailing co-borrower must be a spouse, relative, domestic partner, fiancee or fiance of the primary wage earner.
  - The amount of the Trailing Co-Borrower income used:
    - ⇒ can represent 100% of the documented income from the wage earner's previous employment as long as the trailing co-borrower's income does not exceed 30% of the total income used to qualify
    - ⇒ If the amount of the trailing co-borrower's income exceeds 30% of the total income used, then the amount included in the total income can only represent 50% of the trailing co-borrower's income
  - Debt-to-income ratio is limited to 36%. However, higher qualifying ratios may be used when strong compensating factors exist.
  - The income is not from self-employment
  - The Trailing Co-Borrower was continuously employed in the same occupation for two years immediately preceding the relocation
  - The Trailing Co-Borrower provides a statement of intent to work in the new location and describes the occupation for which he or she intends to seek employment
  - Based upon a review of the job market in the new location, it is reasonably determined that employment opportunities and earning potential for the Trailing Co-Borrower are comparable or better than the opportunities in the former location
  - Borrowers must have 6 months PITI in reserves

Asset Requirements:

Asset Documentation:

2 months bank statements or a VOD is required

Reserve Requirements:

- Primary Residences and Second Homes:
  - Purchases: Underwriter to determine the number months of reserves that are required
  - Limited Cash-Out and Cash-Out Transactions: Cash reserves are not required (unless the Underwriter determines that they are needed so the Borrower will qualify). Cash-Out from the transaction cannot be utilized to satisfy any reserve requirements deemed necessary by the Underwriter.
- Investment Properties: All transaction types require 6 months reserves. Cash-Out from the transaction cannot be utilized to satisfy reserve requirements.

Acceptable Sources of Down Payment:

- See Part X, Section 603 of the Fannie Mae Selling Guide for detailed discussion of all acceptable down payment sources.

Unacceptable Sources of Down Payment:

- Funds from a Non-Profit Organizations such as Nehemiah, AmeriDream or any other program to which the seller contributes the funds.
- Proceeds of a personal or unsecured loan
- A gift that must be repaid in full or in part
- A cash advance on a revolving charge account or unsecured line of credit
- Cash for which the source cannot be verified (cash on hand)

Underwriting: (continued)

Asset Requirements: (continued)

Gift Fund Requirements:

- Borrower(s) must have at least 5% of their own funds into the transaction if the LTV/CLTV is >80%
  - Borrower may come up with the required minimum cash investment by pooling his/her funds with funds from a domestic partner or relative who has lived with him/her for the last 12 months or from a fiancé/fiancée – as long as both individuals will use the home that is being purchased as their principal residence.
- If the LTV/CLTV is ≤ 80% the entire down payment may come from a gift
- The gift must come from a relative, church, municipality or a nonprofit organization. The definition of a relative is as follows:
  - A spouse, child or dependent
  - An individual related to borrower by blood, marriage or adoption
  - A guardian of the borrower
  - A person for whom the borrower is a guardian
  - The borrower's fiancee or the borrower's domestic partner.
- List donor's name, address, phone number, relationship to Borrower and dollar amount of gift on application or gift letter. If provided in a gift letter, it must be signed by the donor.
- If sufficient funds required have not been verified in Borrower's accounts, document transfer.
- Gift funds are not permitted on second homes or investment properties.

Interested Party Contributions:

Interested parties include, but are not limited to, the builder, developer, seller of the property and the real estate agent. Keep in mind, if any of interested parties contribute toward a Temporary Buydown, the buydown contribution will be counted toward the maximum interested party contributions. Contributions from interested parties are acceptable for closing costs and prepaids with the following limitations:

Primary and Second Homes:

- 9% of the lesser of the sales price or appraised value for Mortgages with LTV/CLTV ratios ≤ 75%
- 6% of the lesser of the sales price or appraised value for Mortgages with LTV/CLTV ratios > 75% to 90%
- 3% of the lesser of the sales price or appraised value for Mortgages with LTV/CLTV ratios > 90%

Investment Properties:

- 2% of the sales price regardless of the LTV

Non-Arms Length Transactions:

Primary Residences: Fannie Mae does not specifically address Non-Arms length transactions in their guidelines in relation to Primary Residences. However, Underwriters should scrutinize very closely loans that are Non-Arms length transactions. This includes, but is not limited to, transactions in which the Borrower is affiliated in some way with the Builder, Developer, or Property Seller.

Second Homes and Investment Properties: The Borrower may not be affiliated in any way with the builder, developer, or property seller.

Closing Requirements and Special Forms:

Please use the most current of the forms listed below:

Manufactured Homes:

- You must use a special closing addendum when the property type is marked as Manufactured Housing. You must print the forms from the Product Information section of the Website. The forms are located within the "Miscellaneous Forms, Information and Miscellaneous Bulletins" folder.
- The state may require additional requirements, so please check with your title company for additional restrictions/requirements when preparing a closing package for this property type.
- The closing instructions must state that we require the property to be taxed as real estate and hold first lien position.
- The VIN (vehicle identification number) must be on the title policy and on the Alta 7 endorsement
- The manufactured home must be described in the Security Instrument and the description should contain the year, make-model and HUD serial number(s) for each section of the unit.
- Must obtain an insured closing protection letter from each agent (unless prohibited by state law).
- Refinance transactions: Check with the closing agent to make sure existing loan is titled as real property.
- All other standard closing requirements must be met.

Fixed Rate Mortgage
FNMA/FHLMC Multistate Note – Form 3200 or the appropriate FNMA/FHLMC Note where the property is located

Balloon Mortgage
If using Investor Code LOON7, the following documents should be used:

- Balloon Note: Freddie Form 3290 Multistate Note (or the state specific version where required)
- Balloon Note Addendum: Freddie Form 3292
- Balloon Rider: Freddie Form 3191

If using the Fannie-Only Investor Code (FN7B-7) the following documents should be used:

- Balloon Note – Fannie Form 3260 Multistate Note (or the state specific version where required)
- Balloon Note Addendum – Fannie Form 3266
- Balloon Rider – Fannie Form 3180

FNMA/FHLMC Mortgage for the state where the property is located
Environmental Lien Endorsement ALTA 8.1
Initial Escrow Account Statement

If applicable:
1-4 Family Rider Multistate – Form 3170
Condo Rider – Form 3140
Condo Endorsement ALTA 4
PUD Rider – Form 3150
PUD Endorsement ALTA 5
Second Home Rider – Form 3890
Location Endorsement ALTA 9 (Required in areas where surveys are not customary.)
Manufactured Housing Endorsement ALTA 7
HOA Worksheet (Exhibit C)
PUD Worksheet (Exhibit D)
Revocable Trust Rider

Interim Interest Credits:

Interim interest credits are permitted. The loan must close within the first five days of the month to receive the interest credit.

Prepayment Penalty:

There will be no prepayment penalties on this program.

Servicing:

This product is servicing retained.