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Conventional Underwriting Guidelines

GENERAL

These guidelines describe our underwriting requirements for one-to-four family conventional mortgages. The guidelines are designed to establish and implement sound underwriting criteria, as well as to serve as a reference tool in tandem with the product descriptions. These guidelines are meant to support and supplement our one-to-four family conventional mortgage products. Please refer to our product descriptions for specific program criteria. Our full range of product descriptions is available to our customers at wholesale.flagstar.com.

The guidelines referred to in these guidelines are for conforming conventional first mortgages and can be superseded by changes made by secondary market investors, Federal National Mortgage Association (Fannie Mae or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FREDDIE MAC or Freddie Mac) and is not intended to replace Fannie Mae or FREDDIE MAC Guidelines. In addition to these guidelines: All Michigan State Housing Development Authority (MSHDA) loans must conform to the MSHDA manual.

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

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

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

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

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

ADJUSTABLE RATE MORTGAGES

Per Federal Regulation Z it is required that an ARM disclosure is **provided at time of application, or if application is taken by telephone or through a broker, must be mailed or delivered within 3 business days following receipt of application**. In order to comply with this regulation, Underwriting will condition for the ARM disclosure prior to closing.

ADVERSE ACTION LETTERS

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

CALIFORNIA CREDIT SCORE DISCLOSURE

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

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

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

DOCUMENT EXPIRATION

The age of a document is measured from the date of the document to the date the note is signed, unless otherwise indicated.

- The maximum age of credit documents is 120 days for existing construction and 120 for new construction. Credit documents include credit reports and employment, income, and asset documentation.
- For appraisals, the maximum age is 120 days.
- Freddie Mac Open Access and Freddie Mac Relief loans must close and fund by the document expiration date.
- For Fannie Mae on the date of the loan application, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date. If the last paid to date is more than 45 days, it is required to obtain documentation (e.g., VOM, credit supplement, etc.).
- Title must be dated within 90 days of closing. If greater than 90 days, a gap letter will be required, which will allow the title to be extended an additional 60 days, or an updated title commitment must be provided.

ELECTRONICALLY SIGNED APPLICATION DISCLOSURES

Please refer to *Electronic Signature Policy*, [Doc #4816](#).

ESCROW/IMPOUND FUNDS

Flagstar Bank requires monthly deposits of escrow funds to pay taxes, MI premiums, hazard insurance premiums and assessments as they come due. If a special assessment levied against the property is not paid at loan closing, the monthly payment must include 1/12 of any estimated annual payment toward the assessment. A recorded subordination agreement is required if the assessment is a lien on the property. We do not require escrow deposits for hazard insurance on condominiums that are covered by a blanket insurance policy.

ESCROW/IMPOUND WAIVER

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

- Escrow waiver request should be noted on the 1008 Form
- LTV must be 80% or less*
- Allowable on owner occupied and second home properties with an *Accept* or *Approve* from LPA/DU and a minimum credit score of 620. No assets other than those required by LPA/DU need to be verified
- Allowable on investment properties with an *Accept* or *Approve* from LPA/DU and a minimum credit score of 700. LPA/DU required assets, in addition to one-year of taxes, must be verified
- A pricing adjustment of -0.100 will be charged for all approved escrow waivers

If the LTV is greater than 80%, Flagstar Bank will consider a request for an escrow waiver for Freddie Mac Relief Open Access and for Fannie Mae DU Refi Plus – Other Servicer. The application must meet the following requirements:

- Must document previous mortgage did not have an escrow account
- Reserves equal to 12 months of taxes and insurance, this is above what is required per AUS
- Taxes cannot be delinquent
- Owner occupied properties borrower must have a minimum credit score of 640
- Second home properties borrower must have a minimum credit score of 660
- Investment properties borrowers must have a minimum credit score of 660
- Please refer to rate sheet for LLPA

For cash out transactions, the new loan amount cannot include the financing of real estate taxes when the taxes are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation.

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

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

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

Any loan requiring flood insurance that closes on or after January 1, 2016, must include flood insurance in the borrowers escrow account even if no other escrows are collected or escrows have been waived.

EXCEPTIONS

Any loan file may be submitted to Flagstar Bank for an exception to the guidelines. The exception can be reviewed only by a designated employee of the bank. Exceptions will be reviewed on a case by case basis depending on the overall loan file.

INELIGIBLE PARTICIPANTS

If any of the participants associated to the loan transaction are listed on Flagstar Bank's internal ineligible list, the loan may not be approvable.

LENDING POLICY

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

LIENS

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

LOAN DISCLOSURES/LOAN SUBMISSIONS

Please refer to *Conventional Submission Review Checklist*, [Doc. #3204](#). For more information on compliance, please reference *Compliance*, [Doc #4801](#).

If we are unable to approve a loan as initially submitted, alternative terms must be requested with a revised 1003 disclosing the new loan terms.

LOAN VERIFICATIONS

All Verifications of Deposit (VOD), **Verbal Verifications for Employment (VVOE)**, **Written Verifications of Employment (WVOE, Form 1005)**, and Verifications of Mortgage or Rent (VOM) must be sent directly by the lender and received back directly to the lender without being transmitted through the applicant or any other party. We do not allow verifications to be hand carried. Flagstar Bank **reserves the right to** verbally verify the information on a **VVOE, WVOE, VOM** or VOD with the borrower's employer/asset holder.

MULTIPLE LOANS TO THE SAME BORROWER

If a borrower is applying for more than one loan through Flagstar Bank, all loans must be submitted to Underwriting at the same time and each loan must reference the other loan(s).

FANNIE MAE

If a new mortgage is secured by a second home or investment property, each borrower individually and all borrowers collectively may not own more than ten properties, which includes his/her principal residence, that are currently being financed. This limit applies to any combination of ownership in 1 to 4-unit properties.

- 1 to 4-unit properties in which the borrower is personally obligated on

Conventional Underwriting Guidelines

Refer to *Fannie Mae Multiple Property Program*, [Doc. #5351](#) for all transaction in which the borrower owns 7-10 financed properties.

FREDDIE MAC

If a new mortgage is secured by a second home or investment property, each borrower individually and all borrower collectively must not be obligated on (e.g., notes, land contracts and/or any other debt or obligation) more than ten 1-4 unit properties, includes his/her principal residence, which are currently being financed. This limit applies to any combination of ownership in 1- to 4-unit properties.

- Borrowers who own more than one financed investment property, the new subject investment property mortgage must be a 15, 20, or 30 year fixed rate mortgage or a 7/1 or 10/1 ARM only.
- Ownership of a property that is held in the name of the borrower's business, and the borrower in his or her individual capacity, is obligated on (e.g., Notes, land contracts and/or any other debt or obligation), must be included in the total number of financed properties.

Refer to *Freddie Mac Multiple Property Program*, [Doc. #5340](#) for all transactions in which the borrower owns 7-10 financed properties.

Flagstar Bank will not approve or close more than 5 loans to any one borrower or an aggregate loan amount total of \$4,000,000. When determining if the limit has been met, new loan submissions for a borrower must take into consideration any of that borrower's outstanding loans with Flagstar Bank that are:

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

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

POWER OF ATTORNEY

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

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



Conventional Underwriting Guidelines

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

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

Completed Documents	
Pass	Fail
Jane Smith as AIF for Chris Jones pursuant to POA dated mm/dd/yyyy Chris Jones	Jane Smith Chris Jones
Chris Jones by Jane Smith, AIF (or POA) Chris Jones	Jane Smith Jane Smith, Attorney-in-Fact
Chris Jones by Jane Smith, AIF (or POA) Chris Jones, by Jane Smith as his Attorney-in-Fact (or POA)	Chris Jones Chris Jones by: Jane Smith, Attorney-in-Fact
Jane Smith, Attorney in Fact for Chris Jones Chris Jones by Jane Smith as his Attorney-in-Fact (or POA)	
Jane Smith, AIF (or POA) Chris Jones	
Chris Jones by Jane Smith ¹ Chris Jones, by Jane Smith as his Attorney-in-Fact (or POA)	
Jane Smith ¹ Chris Jones, by Jane Smith as his Attorney-in-Fact (or POA)	

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

PRESENT ADDRESS

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

PRIVATE TRANSFER FEE COVENANTS

Flagstar Bank will not purchase any loans where the property is encumbered by a Private Transfer Fee (PTF) if those covenants were created on or after February 8, 2011. If the purchase agreement or if Schedule B of the title commitment has a PTF, the loan must be denied if the PTF was created on or after February 8, 2011.

PRODUCT DESCRIPTIONS AND RATE SHEETS

Please access the [Product Guidelines](#) page and [Price Indicator Sheets](#) on our Wholesale website for the most current product descriptions and rates.

REACTIVATING DENIED AND WITHDRAWN LOANS

If a loan is *Denied* or *Withdrawn* and needs to be resubmitted for review, we encourage you to upload the condition(s) that support the loan's approval to reactivate the existing loan instead of restarting with a new

Conventional Underwriting Guidelines

loan registration. Doing so will speed up the loan process and will help preserve your relationship with Flagstar by protecting your lock, AUS, and underwriting fallout percentages.

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

PURCHASE COMMITMENTS

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

SHORT SALE FEES PAID BY THE BORROWER

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

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

The following documents will be required:

- Purchase agreement must disclose all fees and/or payment associated to the short sale that the borrower has agreed to pay
- Copy of the Short Sale Approval Letter
- Closing Disclosure must include all short sale fees and payments paid by the borrower.

SUBJECT ADDRESS CHANGE

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

ASSETS

All borrowers' funds must be verified. To substantiate that a borrower has sufficient cash deposits and other assets available to complete the mortgage transaction, as well as adequate reserves after closing, the amount in the borrower's depository accounts, e.g. checking accounts, savings accounts, and retirement accounts, for the two month period that precedes the date of the loan application, and the value of the borrower's other financial investments, e.g. stocks, bonds, mutual funds, etc., as of the date of the loan application must be verified, unless a shorter time period is allowed for loans submitted to Loan Product Advisor or Desktop

Conventional Underwriting Guidelines

Underwriter. Monthly bank statements must be dated within 45 days of application. Quarterly statements must be dated with 90 days of application.

The [Request for Verification of Deposit](#) may be used to verify activity in the borrower's depository accounts. When the borrower authorizes the lender to obtain this information directly from the different depository institutions in which he or she has accounts by signing the Form 1006 or 1-006(S), the depository institutions must complete, sign and date the form and return it directly to the lender. The verification of deposit form should not be handled by the borrower. Rather than requiring the borrower to sign multiple verification forms, the lender may have the borrower sign a borrower's signature authorization form.

BANK PRINTOUTS

A computer-generated transaction history, downloaded by the borrower from the Internet or by a financial institution representative from the institution's system is acceptable. The transaction history must identify the name of the institution and the source, and include the below information required above for asset account statements, unless:

- Identify the financial institution
 - Statements downloaded from the internet the presence of the URL identifying the financial institution or depository is acceptable.
 - Printouts obtained by a financial institution representative must identify the financial institution or depository
- Identify the account owner(s)
- Identify the account number, which at a minimum must include the last four digits
- Show all transactions
- Show the period covered
- Show the ending balance
- Show any outstanding loans secured by the asset

TRUNCATED ASSET ACCOUNT NUMBERS

Fannie Mae has updated their policy to permit truncated account numbers that display at least the last four digits of the borrower's asset account. This change will help provide a greater degree of protection of borrowers' non-public information.

Truncated or masked account numbers for bank and portfolio or investment accounts where at least the last four digits are displayed are permissible on the loan application, in DU, and on asset documentation.

GIFTS

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

ACCEPTABLE DONORS

A gift can be provided by:

- Relative, defined as the borrower's spouse, child or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship. The donor may not be or have any affiliation with the builder, the developer, the real estate agent, or any other interested party to the transaction.
- Fiancé, fiancée, or domestic partner

Conventional Underwriting Guidelines

- Domestic Partner - An unrelated individual who shares a committed relationship with the primary wage earner, currently resides in the same household as the primary wage earner, and intends to occupy the security property with the primary wage earner.

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

DOCUMENTATION REQUIREMENTS

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

- Specify the dollar amount of the gift
- Specify the date the funds were transferred
- Include the donor's statement that no repayment is expected
- Indicate the donor's name, address, telephone number, and relationship to the borrower

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment ([see Exceptions under Minimum Borrower Contribution Requirements](#)), the following items must also be included:

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

VERIFYING DONOR AVAILABILITY OF FUNDS AND TRANSFER OF GIFT FUNDS

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

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

It is acceptable for the donor to send the gift funds to the title or escrow company in lieu of transferring the funds directly into the borrower's account. Documentation must be provided to evidence the gift has been received by the title or escrow company. Acceptable documentation includes the following:

- Copy of the donor's canceled check and a letter from the title or escrow agent confirming the receipt of funds from the donor, or
- Copy of the donor's withdrawal slip and a letter from the title or escrow agent confirming the receipt of funds from the donor, or
- Copy of the wire transfer and a letter from the title or escrow agent confirming the receipt of funds from the donor. Information on the letter must match gift letter.

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

GIFT OF EQUITY

A gift of equity refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction. A gift of equity is permitted for the purchase of a principal residence or second home. If the transaction is a second

home new construction there may be no relationship between buyer and seller/builder due to non-arms-length transaction restrictions. The acceptable donor and minimum borrower contribution requirements for gifts also applies to gifts of equity.

DOCUMENTATION REQUIREMENTS

The following documents must be retained in the loan file:

- Signed gift letter
- The Closing Disclosure listing the gift of equity

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

DONATIONS FROM ENTITIES

Owner-occupant borrowers may use donated gift or grant funds from acceptable entities to pay or supplement part of the closing costs or part of the financial reserves. Acceptable entities include churches, municipalities, nonprofit organizations, excluding credit unions, and public agencies.

Please refer to *Guidelines for Down Payment Assistance Programs*, [Doc. #5936](#), *Community Seconds Program*, [Doc. #5932](#), and *Gift/Grant Programs*, [Doc. #5935](#).

MINIMUM BORROWER CONTRIBUTION REQUIREMENTS

Mortgage insurers may have additional restrictions not listed within this document. Please refer to each MI Company's website for complete eligibility details.

FANNIE MAE

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

Transactions That Contain Gifts		
LTV, CLTV or HCLTV	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
≤ 80%	1 to 4-unit principal residence second home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
> 80%	1-unit principal residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift. Loans requiring mortgage insurance must follow mortgage insurance company requirements for own funds.
	2 to 4-unit principal residence second home	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs and reserves. Please refer to the <i>Fannie Mae HomeReady Program</i> , Doc. #5318 , for additional information about minimum borrower contribution and down payment requirements.

FREDDIE MAC

In connection with a mortgage secured by a primary residence, a minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift. In connection with a mortgage secured by a second home, if a gift from a related person is used with a mortgage with a LTV ratio greater than 80%, the gift is a permitted source of borrower funds only if the borrower has made a down payment of at least 5% from the borrower's personal funds.

Fannie Mae and Freddie Mac Exceptions

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

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

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

CONTRIBUTIONS BY INTERESTED PARTIES

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

MAXIMUM CONTRIBUTIONS

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

- 2% of the lesser of the property's sales price or appraised value for a mortgage secured by an investment property
- 3% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence or second home, if the LTV ratio, or if applicable, the CLTV, is greater than 90%
- 6% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence or second home, if the LTV ratio, or if applicable, the CLTV ratio, is in the range from 76% to 90%
- 9% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence or second home, if the LTV ratio, or if applicable, the CLTV ratio, is \leq 75%

For underwriting purposes, a downward adjustment must be made to the sales price of the property to reflect the amount of any contributions that exceed our limitations.

Personal property that is permanently affixed or difficult to remove should be considered as part of the sales price and may remain on the sales contract, and do not require the underwriter to establish a value. Examples include but are not limited to:

- Built-in appliances such as stoves, refrigerators, and dishwashers
- Swing sets
- Above-ground pools
- Window treatment
- Pool tables
- Wet bar

Personal property that is not permanently affixed or is not difficult to remove should have an addendum to the contract assigning no value, as long as the aggregate amount does not exceed \$500.

ASSESSING PERSONAL PROPERTY

Value assigned to personal property must be reasonable. A value for items appearing on the sales contract must have a value established. Tools such as eBay, Craig's List, and Google can be used to establish a value.

Personal property items that exceed an aggregate value of \$500 and are not permanently affixed or are not difficult to remove must have a value established. The underwriter must consider LTV impacts when assessing personal property and ensure the following scenarios are taken into account when evaluating the loan file:

- If the reduction in sales price now puts the LTV greater than 80%, the borrower must come in with cash to close to maintain an LTV of 80% or less.
- LTV must still meet product requirements.

INTERESTED PARTY CONTRIBUTION

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

Lender (the entity that closes the loan) Contributions – Fannie Mae

- Lender-sourced contributions to fund closing costs and prepaid fees that are normally the responsibility of the borrower are permitted provided the lender-sourced contribution is not:
 - used to fund any portion of the down payment
 - subject to repayment requirements, or require financial obligation apart from the subject mortgage
 - passed to the lender from a third party

FINANCING CONCESSIONS

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

- Origination fees

- Discount points
- Commitment fees
- Appraisal costs
- Transfer taxes
- Stamps
- Attorney fees
- Survey charges
- Title insurance premiums or charges
- Real estate tax service fees
- Funds to subsidize a temporary or permanent interest rate buy-down
- Prepaid items such as:
 - Interest charges, limited to no more than 30 days of interest
 - Real estate taxes covering any period after the settlement date, only if the taxes are being impounded by the servicer for future payment
 - Hazard insurance premiums, limited to no more than 14 months)
 - Initial and/or renewal mortgage insurance premiums and any escrow accruals required for renewal of borrower-purchased mortgage insurance coverage
 - HOA fees for up to 12 months

REALTOR COMMISSION

Fannie Mae -When the borrower is a realtor and representing themselves during the purchase process, the commission earned can be used to reduce the closing costs, but during the underwriting process, the borrower must show sufficient cash to close without the credit.

Freddie Mac - When the borrower is a realtor and representing themselves during the purchase process, the commission earned can be used to document sufficient funds to close, and is not subject to Interested Party contribution limit.

SALES CONCESSIONS

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

PAYMENT ABATEMENT

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

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

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

UNDISCLOSED SELLER CONTRIBUTIONS

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

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

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

There are a number of down payment assistance, homeownership programs, etc. organizations that provide funds to borrowers toward the purchase of a new home. Some of these organizations include: Nehemiah Program, AmeriDream Charity, HART, Responsible Homeownership Program, Family Home Providers, Neighborhood Gold (The Buyers Fund), Partners in Charity, Freedom Outreach, Horizon, AJH, Genesis Down Pmt Assistance Program, DPA Alliance, Futures, Homes For All, Home Down Payment Gift Foundation & National Home Down Payment Gift Funds.

For conventional loans, we do not allow funds from these organizations for down-payment and on only a limited level for closing costs and prepaids. Any funds put into a conventional transaction from these organizations must meet the seller concession percent limitation rules. These funds are considered a seller concession. If the LTV is 95%, the maximum seller concession is 3%, the total maximum amount of combined funds from the seller and these organizations combined is 3%. The seller cannot put in 3% and the organizations another 3%, the total combined limit is 3%.

VERIFICATION OF ASSETS

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

REQUEST FOR VERIFICATION OF DEPOSIT

When a Verification of Deposit (Form 1006 or Form 1006[S]) (VOD) is used and depository activity is not included, the lender must verify the source of funds for:

- Accounts opened within the last 90 days of the application date, and
- Account balances that are considerably greater than the average balance reflected on the VOD.

Instead of sending a request for verification of deposit to each of the borrower's depositories or account holders, funds available for closing may be verified by obtaining from the borrower a copy of the applicable bank statements or investment portfolio statements that cover activity in the accounts for the most recent 2

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month period; or, if account information is reported on a quarterly basis, for the most recent quarter, and if applicable, copies of the most recent retirement account statement that is available may be obtained. If the latest bank statement is more than 45 days earlier than the date of the loan application, the borrower must provide a more recent supplemental bank-generated form that shows the account number, balance, and date. The statements may be computer generated forms, including on-line account or portfolio statements that the borrower downloaded through the internet. Documents that are sent via fax to the lender or that are downloaded from the internet by the borrower must clearly identify the name of the depository or investment institution, and the source of information. For example, by including that information in the internet or fax banner that is at the top of the document.

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

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

TYPES OF ASSETS

UNSECURED LOANS

Unsecured loans are not an acceptable source of funds for down payment for closing costs. However, Fannie Mae will allow for unsecured financing for lock-in, appraisal, and credit report fees provided the total does not exceed \$1,000 and the debt-to-income ratios are acceptable.

DEPOSITS ON SALES CONTRACT

The deposit on the sales contract for the purchase of the subject property is an acceptable source of funds for both the down payment and the closing costs. When the deposit is used to make any portion of the borrower's down payment that must come from his or her own funds, the source of funds for the deposit must be verified. The receipt of the deposit generally should be verified by a photocopy of the borrower's cancelled check, although a written statement from the holder of the deposit is acceptable. The source of funds for the deposit may be verified by either a bank statement or a request for verification of deposit that indicates that the average balance for the past two months was large enough to include the amount of the deposit. If the deposit check has cleared the bank account, the bank statement should cover the period up to and including the date the check cleared the bank account. If the earnest money deposit is required for funds to close, verification that the deposit has cleared the account is required.

FANNIE MAE ONLY

When the borrower has sufficient funds for reserves and closing costs, the EMD may be backed out of the borrower's available assets.

FREDDIE MAC

When the EMD deposit is needed to meet the borrower's minimum contribution, the following requirements apply:

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- Funds are from an acceptable source; and
- Evidence the EMD cleared the borrower account with a cancelled check or copy of the bank statement that covers the period up to and including the date the EMD funds cleared the account.

When the EMD is not needed to meet the borrower's minimum contribution and the borrower has sufficient funds for reserves and closing costs, the EMD may be backed out of the borrower's available assets.

CHECKING AND SAVINGS ACCOUNTS

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

STOCKS, BONDS, AND MUTUAL FUNDS

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

- The value of stocks, bonds, and mutual funds, net of any margin accounts, may be verified by referencing the most recent monthly or quarterly statement from the depository or investment firm. A photocopy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application, may also be used to document stock ownership and value.
- The value of government bonds should be based on their purchase price unless the redemption value can be documented.
- The value of non-vested restricted stock may not be used as reserves.
- When used for the down payment or closing costs, if the value of the asset as determined above is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.
- Vested stock options are eligible source of borrower funds and reserves, and must be documented with the following:
 - Account statements covering a two-month period or direct account verification, i.e., VOD, confirming the number of vested shares and current value.
 - If the borrower does not receive a stock/security account statement for the stock options, the originator must:
 - Provide a statement verifying the number of vested shares owned by the borrower
 - Provide the current stock price from a published source to determine the value

TRUST ACCOUNTS

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

TRADE EQUITY

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

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

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

SALE OF PERSONAL ASSETS

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

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

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

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

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

Vested funds from individual retirement accounts (IRA/Keogh accounts) and tax favored retirement savings accounts (401K) may be used as the source of funds for the down payment, closing costs, or financial reserves. The underwriter must verify account ownership and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of stocks, bonds, or mutual funds, please refer to the [Stock, Bonds, and Mutual Funds](#) section.

DISASTER RELIEF GRANT OR LOAN

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

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

EMPLOYER ASSISTANCE

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

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

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

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

Documentation must be provided to document the following:

Conventional Underwriting Guidelines

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

ANTICIPATED OR ACTUAL SALES PROCEEDS

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

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

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

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

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

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

BRIDGE OR SWING LOANS

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

CREDIT FOR VALUE OF LOT

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

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

If the borrower purchased the lot less than one year prior to the date of the mortgage application, the borrower's cash investment must be documented by obtaining the Closing Disclosure and a copy of a warranty deed that shows there are no outstanding liens against the property or a copy of a release of any prior lien(s).

RENT CREDIT FOR OPTIONS TO PURCHASE

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

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

BORROWED FUNDS SECURED BY AN ASSET

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

CASH VALUE OF LIFE INSURANCE

The net proceeds from a loan against the cash value, or from the surrender, of a life insurance policy can be used as a source of funds for the down payment, closing costs, and financial reserves. Documentation must be obtained from the insurance company to verify the specific terms of the loan against the cash value of the policy or the net surrender value of the policy. To document the

borrower's receipt of funds from the insurance company, the lender may rely on either a copy of the check from the insurer or a copy of the payout statement issued by the insurer.

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

CREDIT CARD FINANCING

Certain costs that must be paid early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees, may be charged to the borrower's credit card, because these fees do not represent extraordinary amounts and the credit card debt is considered in the borrower's total monthly debt-to-income ratio. Borrowers are not required to pay off these credit card charges before closing. Under no circumstances may credit card financing be used for the down payment.

Lenders may allow credit card financing for the payment of common and customary fees paid outside of closing up to a maximum of 2% of the loan amount if the lender:

- Confirms that the borrower has sufficient liquid funds, or financial reserves, to cover these charges in addition to funds needed for other closing costs and the down payment that he or she will be paying; or
- Recalculates the credit card payment to account for the new charges and includes the updated payment in the qualifying ratio calculation.

INDIVIDUAL DEVELOPMENT ACCOUNTS

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

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

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

must show that the borrower has made regular payments into the account and that the agency made regular deposits of the matching funds into the account.

POOLED SAVINGS (COMMUNITY SAVINGS FUNDS)

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

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

MORTGAGE REVENUE BOND PREMIUM PROCEEDS

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

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

PERSONAL UNSECURED LOANS

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

CASH-ON-HAND

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

SECTION 1031 TAX DEFERRED EXCHANGES

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

BUSINESS ASSETS

Fannie Mae

Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves when a borrower is self-employed and the individual federal income tax returns have been evaluated by the underwriter, including, if applicable, the business federal income tax returns for that particular business (non-Schedule C). The borrower must be listed as an owner of the account and the account must be verified with a verification of deposit or bank statements. The underwriter must review the bank statement (number of months determined by DU) perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business.

Freddie Mac

Withdrawals of assets from the business may have a negative impact on the ability of the business to continue operating. When business assets are being used for the Down Payment, Closing Costs and/or reserves, the underwriter must determine that the withdrawal of the funds will not have a detrimental effect on the business. In addition to a review and analysis of the personal and business tax returns, the underwriter may review and analyze the current financial statement (e.g., P&L or balance sheet) and/or the last three months of the business bank statements to confirm the deposits, withdrawals and balances are supportive of a viable business and are aligned with the level and type of income and expenses reported on the business tax returns. The factors contributing to the determination that the withdrawal will not negatively impact the business must be included on the underwriter's written analysis of the income source and amount.

- Reviews a minimum of the most recent two months of the business account statements, and
- Determines the deposits are typical for the Borrower's business

LARGE DEPOSIT

When bank statements, typically covering the most recent two months are used, the lender must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income (includes income derived from the asset calculation for establishing the debt payment-to-income ratio) for the loan. Requirements for evaluating large deposits vary based on the transaction type. For refinance transactions, the following requirements must be met only if the funds are needed to close. For purchase transactions, the requirements are always required:

- If funds from a large deposit are needed to complete the transaction, i.e., are used for the down payment, closing costs, or financial reserves, the lender must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The lender must place in the loan file written documentation of the rationale for using the funds.
 - Verified funds must be reduced by the amount, or portion, of the undocumented large deposit, as defined above, and the lender must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount, must be used for underwriting purposes. When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit. See examples below:
 - Scenario 1:
 - Borrower has monthly income of \$4,000 and an account at ABC bank with a balance of \$20,000. A deposit of \$3,000 is identified, but \$2,500 of that deposit is documented as coming from the borrower's federal income tax refund.
 - Only the unsourced \$500, the deposit of \$3,000 minus the documented \$2,500, must be considered in calculating whether it meets the large deposit definition.
 - The unsourced \$500 is 12.5% of the borrower's \$4,000 monthly income, falling short of the 50% definition of a large deposit.
 - Therefore, it is not considered a large deposit and the entire \$20,000 balance in the ABC bank account can be used for underwriting purposes.
 - Scenario 2:
 - Using the same borrower example, a deposit of \$3,000 is identified, but only \$500 is documented as coming from the borrower's federal income tax refund, leaving \$2,500 unsourced.
 - In this instance, the unsourced \$2,500 is 63% of the borrower's \$4,000 monthly income, which does meet the definition of a large deposit.
 - Therefore, the unsourced \$2,500 must be subtracted from the account balance of \$20,000 and only the remaining \$17,500 may be used for underwriting purposes.

If the source of a large deposit is readily identifiable on the account statement(s), such as a direct payroll deposit from an employer, the Social Security Administration, IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement,



Conventional Underwriting Guidelines

the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain additional documentation.

RESERVES

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

Loans requiring MI must follow MI company requirements for own funds.

FANNIE MAE

Principal Residence - Reserves (PITIA) in Months	
1 to 4-Unit	DU will determine the reserve requirements based on the overall risk assessment of the loan, the minimum reserve requirement that may be required for the transaction, and whether the borrower has multiple financed properties.

If the borrower owns other financed properties), additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:

- 2% of the aggregate UPB if the borrower has one to four financed properties,
- 4% of the aggregate UPB if the borrower has five to six financed properties, or
- 6% of the aggregate UPB if the borrower has seven to ten financed properties.

The aggregate UPB calculation does not include the mortgages and HELOCs that are on

- the subject property,
- the borrower's principal residence,
- properties that are sold or pending sale, and
- accounts that will be paid by closing (or omitted in DU on the online loan application).

Cash-out refinance transactions for borrower(s) with a debt-to-income ratio exceeding 45% must have at least 6 months reserves. Loan casefile will receive an Ineligible response without submitted reserves.

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Principal Residence - Reserves (PITIA) in Months	
1-4 Units	Per LPA

Second Home and Investment Property- Reserves (PITIA) in Months
Per LPA, which includes 2 months PITIA for 1-6 total financed properties and 8 months PITIA for 7-10 total financed properties on each additional second home and investment property that is financed and the borrower is obligated on

CREDIT AND LIABILITIES

AUTOMATED CREDIT UNDERWRITING

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

CREDIT SCORE REQUIREMENTS

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

- 2 tradelines with a minimum 12 month history or
- 1 tradeline with a minimum 12-month history and a 12-month housing reference evidenced by canceled checks.

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

Mortgage Insurance companies may impose their own restrictions.

CREDIT INQUIRIES

The report must list all inquiries that were made in the previous 120 days. All loan applicants will be required to provide an explanation for all inquiries that were made in the previous 90 days on their credit report and any new debt must be added to the liabilities section of the 1003 and be supported by applicable documentation. All applicants will be required to provide a signed letter of explanation for all credit inquiries found during the loan process.

DISPUTED CREDIT INFORMATION

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

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



Conventional Underwriting Guidelines

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

DISPUTED CREDIT REPORT TRADELINES

FANNIE MAE

DU will first assess the risk of the loan casefile using all tradelines reported as disputed by the borrower. When DU issues an Approve recommendation using the disputed tradelines, no further documentation of the disputed tradeline will be needed. When the loan casefile does not receive an Approve recommendation using the disputed tradeline in the risk assessment, the risk will then be assessed with the disputed tradeline excluded the underwriter must determine if the disputed account belongs to the borrower and confirm the accuracy and completeness of the information on the tradeline. If the borrower is not responsible for the account or the information on the tradeline does not accurately and completely report the account, no further action is necessary regarding the disputed tradeline. If the borrower is responsible for the account, the tradeline must be updated, a new credit report obtained and resubmitted to DU for a valid AUS recommendation. Follow the direction of the AUS.

FREDDIE MAC

For loans submitted to (LPA) that have received an *Accept* response and the borrower has a disputed account, it is no longer required to review the credit report for disputed tradelines and confirm the accuracy of the disputed tradelines. The disputed tradelines have already been included in the LPA assessment.

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

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

UNDERWRITING BORROWERS WITH FROZEN CREDIT

FANNIE MAE

Loans for a borrower with credit data frozen at one of the credit repositories, the credit report is still acceptable as long as the following requirements are met:

- Credit data is available from two repositories,
- A credit score is obtained from at least one of those two repositories, and
- The lender requested a three in-file merged report.

FREDDIE MAC

Loans for borrowers with credit data frozen that receive an LPA accept do not require additional documentation.

EXTENDED FRAUD ALERTS OR ACTIVE MILITARY ALERTS

Applicants with credit reports containing extended fraud alerts or active military alerts will be contacted by a Flagstar Bank employee prior to a commitment letter being issued.

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

NON-U.S. CITIZEN BORROWERS

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

UNACCEPTABLE USES

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

- When the lender is able to obtain a credit score for the borrower despite limited use of credit and that score is acceptable given the overall risk of the mortgage.
- When the borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required. The lender may not establish an acceptable credit profile through the development of a non-traditional mortgage credit report.
- When the borrower's traditional credit history indicates derogatory references, such as late payments, collection accounts, or judgments. Non-traditional mortgage credit report cannot be used as a means to offset derogatory references or enhance a poor credit history with the traditional providers of credit.
- When the borrower has no credit history, non-traditional mortgage credit reports cannot be used to artificially create a credit history.

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

CREDIT HISTORY

VERIFICATION OF MORTGAGE OR RENT (VOM/VOR)

Fannie Mae

- Mortgage history verification is required for all mortgage not reporting on the credit report. All mortgage tradelines must be updated within 45 days of application. If more than 45 days have elapsed since last reporting, it is required to document the mortgage is current.
- Rental history must be documented when required with 12 months canceled checks if not provided by a professional management company.

Freddie Mac

- Direct verification of housing payment is not required if all borrower have a usable credit score and LPA issued an Accept response.

MORTGAGE DELINQUENCY

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

- If any borrower's credit report contains a mortgage tradeline that is ≥ 60 days past due when the account was last reported by the creditor and the account was reported within the 12 months prior to the credit report date, the loan will receive a *Refer with Caution/IV* recommendation and will be ineligible for delivery.

- If an account is reported on the credit report as a non-mortgage tradeline, and yet the account is listed on the loan application as a mortgage, DU will analyze the credit history of the tradeline as a mortgage. For example, if the credit report identifies an account as a revolving account and the account is listed a HELOC on the loan application, DU will evaluate the credit history of the account as a mortgage. Any late payments in the credit report will be treated by DU as delinquent mortgage payments.
- If there is a mortgage that is disclosed on the loan application but not reported on the credit report, DU will issue a message requiring the lender to confirm that the account is not two or more payments past due as of the date of the application and that it has not been past-due by two or more payments in the last 12 months. If the lender determines that the borrower does have a mortgage that is past due by two or more payments or has been past due by two or more payments in the last 12 months, then the loan is not eligible for delivery to Fannie Mae.
- Borrowers may not bring past-due mortgage accounts current prior to closing to circumvent Fannie Mae's guideline regarding past-due mortgages. However, the lender may apply some discretion with regard to the application of this policy if it determines and documents that the past due account status was not the fault of the borrower. For example, if the servicer misapplied or lost the borrower's payment.
- Loan casefiles will receive an *Ineligible* recommendation due to excessive prior mortgage delinquency if the borrower has a mortgage tradeline on his or her credit report that has one or more 60, 90, 120, or 150-day delinquency reported within the 12 months prior to the credit report date.
- When DU identifies a mortgage delinquency on the credit report, once the lender has documented the information is inaccurate, the lender may instruct DU to disregard the mortgage delinquency information on the credit report. This is done by entering "Confirmed Mtg Del Incorrect" in the Explanation field for question f. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the mortgage delinquency information on the credit report will not be used.
 - If the lender enters "Confirmed Mtg. Del Incorrect", the lender must document that the mortgage is not currently 60 days or more past due, and has not been 60 days or more past due in the last 12 months.

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

SIGNIFICANT DEROGATORY CREDIT EVENTS

The presence of significant derogatory credit events dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales, short sales, and charge-offs of mortgage accounts.

The terms pre-foreclosure sale and short sale are used interchangeably in the Guide and have the same meaning. The underwriter must determine the cause and significance of the derogatory event and verify sufficient time has elapsed since the date of the last derogatory event.

BANKRUPTCIES

- If the bankruptcy is not reported in a public record, but a tradeline is reported with a bankruptcy status close, the lender will need to verify the actual filed and discharged dates to determine that the bankruptcy meets the DU 48-month guideline.

- AUS must return an acceptable response of *Approve Eligible* (DU) or *Accept* (LPA) offering.

UNDERWRITING WHEN THE CREDIT REPORT CONTAINS INACCURATE BANKRUPTCY INFORMATION

- When DU identifies a bankruptcy on the credit report and the lender has documented the information is inaccurate, the lender may instruct DU to disregard the bankruptcy information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR BK Incorrect” in the Explanation filed for question b. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the bankruptcy information on the credit report will not be used.
- If the lender enters “Confirmed CR BK Incorrect”, the lender must document that the Chapter 13 bankruptcy was discharged two or more years or dismissed four or more years from the disbursement date of the new loan, or that the non-Chapter 13 bankruptcy was discharged or dismissed four years or more years from the disbursement date of the new loan

UNDERWRITING WHEN A BANKRUPTCY WAS DUE TO EXTENUATING CIRCUMSTANCES

- When DU identifies a bankruptcy on the credit report and the lender documents the bankruptcy was due to extenuating circumstances, once properly documented, the lender may instruct DU to disregard the bankruptcy information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR BK EC” in the Explanation field for question b. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the bankruptcy information on the credit report will not be used.
- If the lender enters “Confirmed CR BK EC”, the lender must document that the bankruptcy was due to extenuating circumstances, and that the Chapter 13 bankruptcy was dismissed two or more years from the disbursement date of the new loan, or that the non-Chapter 13 bankruptcy was discharged or dismissed two or more years from the disbursement date of the new loan.

Fannie Mae Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Re-establishment of Credit with Financial Mismanagement	Recovery Time Periods for Re-establishment of Credit with Extenuating Circumstances
Bankruptcy (Chapter 7 or Chapter 11)	A four year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.	A two year waiting period is permitted and is measured from the discharge or dismissal date of the bankruptcy action.
Bankruptcy (Chapter 13) A distinction is made between Chapter 13 bankruptcies that were discharged and those were dismissed.	Two years from the discharge date, or four years from the dismissal date	A two year waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge.
Multiple Bankruptcy Filings	For a borrower with more than one bankruptcy filing within the past seven years, a five-year waiting period is required, measured from the most recent dismissal or discharge date.	A three year waiting period is permitted if extenuating circumstances can be documented, and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances.



Conventional Underwriting Guidelines

Freddie Mac Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Re-establishment of Credit with Extenuating Circumstances	Additional Requirements
Bankruptcy (all bankruptcy actions)	24 months from the discharge or dismissal date	Whenever a borrower has had a bankruptcy within the last seven years, the mortgage file must also contain: <ul style="list-style-type: none"> Copies of the bankruptcy petition, schedule of debts, and discharge or dismissal, Evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid, Any other evidence necessary to support the seller's determination that the borrower has reestablished and maintained an acceptable credit reputation.

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

FORECLOSURE

Fannie Mae Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Re-establishment of Credit with Financial Mismanagement	Recovery Time Periods for Re-establishment of Credit with Extenuating Circumstances
Foreclosure	A seven-year waiting period is required, and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower	<p>A three-year waiting period is permitted and is measured from the completion date of the foreclosure action. Additional requirements apply between three and seven years, which include:</p> <ul style="list-style-type: none"> Maximum LTV, CLTV, or HCLTV ratios of the lesser of 90% or the maximum LTV, CLTV, or HCLTV ratios for the product requested The purchase of a principal residence is permitted Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time <p>The purchase of second homes or investment properties and cash-out refinances, any occupancy type, are not permitted until a seven-year waiting period has elapsed.</p>



Conventional Underwriting Guidelines

Freddie Mac Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Re-establishment of Credit with Financial Mismanagement	Additional Requirements
Foreclosure	84 months from the completion date as reported on the credit report	N/A

Freddie Mac Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Re-establishment of Credit with Extenuating Circumstances	Additional Requirements
Foreclosure	36 months from the completion date as reported on the credit report	<p>Whenever a borrower has had a previous foreclosure within the last seven years, the mortgage must either be:</p> <ul style="list-style-type: none"> • A purchase transaction mortgage secured by a primary residence with a maximum LTV, TLTV, HTLTV ratio of the lesser of 90% or the maximum LTV, TLTV, HTLTV ratio for the transaction , or • A rate and term refinance <p>Additionally, the mortgage file must contain evidence of the completion of the foreclosure, deed-in-lieu of foreclosure, or short sale</p>

DEED-IN-LIEU OF FORECLOSURE, SHORT SALE, OR CHARGE-OFF OF MORTGAGE ACCOUNT

These transaction types are completed as alternatives to foreclosure.

Fannie Mae Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Re-establishment of Credit with Financial Mismanagement	Recovery Time Periods for Re-establishment of Credit with Extenuating Circumstances
Deed-in-lieu of foreclosure, pre-foreclosure, sale, or charge-off of mortgage account	Four years	Two Years

Freddie Mac Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Re-establishment of Credit with Financial Mismanagement	Additional Requirements

Conventional Underwriting Guidelines

Freddie Mac Waiting Periods		
Deed-in-lieu of foreclosure	48 months from the execution date	Whenever a borrower has had a previous foreclosure within the last seven years, the mortgage must either be: <ul style="list-style-type: none"> • A purchase transaction mortgage secured by a primary residence with a maximum LTV, TLTV, HTLTV ratio of the lesser of 90% or the maximum LTV, TLTV, HTLTV ratio for the transaction , or • A rate and term refinance Additionally, the mortgage file must contain evidence of the completion of the foreclosure, deed-in-lieu of foreclosure, or short sale
Short sale or charge-off of mortgage account	LPA will determine if credit is acceptable, If Accept response is received, there is not a waiting period that must be manually applied.	N/A

Freddie Mac Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Re-establishment of Credit with Extenuating Circumstances	Additional Requirements
Deed-in-lieu of foreclosure	24 months from the execution date	Whenever a borrower has had a previous foreclosure within the last seven years, the mortgage must either be: <ul style="list-style-type: none"> • A purchase transaction mortgage secured by a primary residence with a maximum LTV, TLTV, HTLTV ratio of the lesser of 90% or the maximum LTV, TLTV, HTLTV ratio for the transaction , or • A rate and term refinance Additionally, the mortgage file must contain evidence of the completion of the foreclosure, deed-in-lieu of foreclosure, or short sale
Short sale	LPA will determine if credit is acceptable. If Accept response if received, there is not a waiting period that must be manually applied.	N/A

EXTENUATING CIRCUMSTANCES – FANNIE MAE

Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.

If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include documents that confirm the event, such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc., and documents that

illustrate factors that contribute to the borrower's inability to resolve the problems that resulted from the event, such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns covering the periods to, during, and after a loss of employment, etc. The lender must obtain a letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate the borrower had no reasonable options other than to default on their financial obligations.

EXTENUATING CIRCUMSTANCES – FREDDIE MAC

For mortgages with an *Accept* response from LPA, the significance of the derogatory information has already been considered by LPA and the borrower's credit reputation has been deemed acceptable. However, regardless of the risk classification received from LPA, if evidence of a short sale is disclosed on a credit report or contained elsewhere in the mortgage file, the following recovery time periods and additional requirements must be met and the mortgage file must contain all of the following documentation:

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

WAITING PERIOD FOR MORTGAGE DEBT DISCHARGED THROUGH BANKRUPTCY – FANNIE MAE

If a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. Lenders must obtain documentation to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

JUDGMENTS, GARNISHMENTS, AND LIENS

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

PAST-DUE, COLLECTIONS, AND CHARGE-OFF ACCOUNTS

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

Conventional Underwriting Guidelines

- For 1-unit, owner-occupied properties, borrowers are not required to pay off outstanding collections or charge-offs, regardless of the amount, provided the collection will not threaten first-lien position.
- For 2 to 4-unit, owner-occupied and second home properties, collections and charge-offs totaling more than \$5,000 must be paid in full prior to closing.
- For investment properties, individual accounts equal to or greater than \$250, and accounts more than \$1,000 must be paid in full prior to closing.

AUTHORIZED USER TRADELINES FANNIE MAE

When the credit report contains authorized users accounts and the underwriter has determined that the authorized user accounts have an insignificant impact on the borrower's overall credit history and the information on the credit report is representative of the borrower's own credit reputation the Loan Product Advisor – Desktop Underwriter decision may be deemed valid. The borrower must qualify with the payment unless the authorized user tradeline belongs to another borrower on the mortgage loan or it can be documented someone else other than the borrower is making the payment. See Debts Paid by Others section in the Conventional Underwriting Guidelines.

FREDDIE MAC

When the decision repository file used to create the selected borrower's credit report contains tradelines for accounts for which the borrower is not the primary account holder but is listed as an authorized user, Loan Product Advisor will return a feedback message indicating when the following requirements must be met:

The LPA feedback certificate will provide messaging regarding authorized user account(s), the message will indicate the following requirements:

- The Mortgage file must contain documentation evidencing that for each authorized user account:
 - Another Borrower on the Mortgage owns the Tradeline in question, or
 - The Tradeline is owned by the Borrower's spouse, or
 - The Borrower has been making the payments on the account for the last 12 months, OR
- If the underwriter is unable to document one of the above requirements for each authorized user account, the underwriter may make the determination that the authorized user accounts have an insignificant impact on the borrower's overall credit history and the information on the credit report is representative of the borrower's own credit reputation. The underwriter should base its determination on the number of the borrower's own tradelines, as well as the age of the tradeline, type, size and the payment history, as compared to the authorized user accounts. The underwriter must document its determination in the Mortgage file.

MONTHLY DEBT OBLIGATIONS

30 DAY CHARGE ACCOUNTS

The borrower must have assets sufficient to pay-off all 30 day accounts. The only exception is on casefiles where the borrower is receiving cash back at closing, there is not a minimum amount of reserves required for the transaction, e.g. loans secured by second home and investment properties that require the underwriter to manually calculate the minimum required reserves, and the borrower has a 30 day account on the loan application, DU will subtract any cash back being received by the borrower from the amount of required and the 30 day account balance. When the amount of the cash back covers only a portion of the 30 day account balance, DU will only require the amount of the 30 day account balance that is not covered in the cash back to be verified, and as such the underwriter only

needs to verify the funds required by DU. When the amount of cash back covers the entire 30 day account balance, DU will not require the amount of the 30-day account balance to be verified. LPA will not include the balance in assets to be verified, the balance will need to be manually calculated. It is never acceptable to use 5% of the outstanding balance as a payment in lieu of the asset requirement. In order for AUS to recognize accurately, the liability must be marked as a 30 day charge account and the payment must equal the balance.

ALIMONY AND CHILD SUPPORT

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

For Fannie Mae, alimony may either be treated as a reduction to income or entered as a liability. When the borrower is responsible for paying alimony, the underwriter must submit the loan to DU with alimony listed as a liability and if DU returns a recommendation of ineligible or refer with caution due to ratios, the underwriter can then remove the alimony from liabilities and reduce the qualifying income by the amount of alimony in an attempt to obtain a DU recommendation of approve/eligible.

BRIDGE (OR SWING) LOAN

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

BUSINESS DEBT IN BORROWER'S NAME

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

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

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

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

CALCULATING MONTHLY REAL ESTATE TAX PAYMENT – SUBJECT PROPERTY

- When calculating the real estate tax payment for existing (not new construction) properties, the following documentation must be used:
 - The taxes listed on the title commitment or property tax bill/cert; or
 - Evidence from the local assessor's office of the current tax rate
- If the transaction is a new construction and the property has not been fully assessed, the taxes may be calculated based on the current tax rate as obtained from the local tax assessor's office or 1.5% of the appraised value.
- For purchases of new and existing properties in California only, property taxes may be calculated using 1.25% of the purchase price or the current tax rate as obtained from the local tax assessor's office

COURT-ORDERED ASSIGNMENT OF DEBT

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

CURRENT RESIDENCE PENDING SALE

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction the PITIA for the borrower's current primary residence pending sale may be excluded from the monthly debt payment-to-income ratio if the following requirements have been met:

- An executed sales contract for the property-pending sale. If the executed sales contract includes a financing contingency, the mortgage file must also contain evidence that the financing contingency has been cleared or a lender's commitment to the buyer of the property pending sale; or
- And executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage(s). There cannot be any financing contingencies and the relocation agreement must be fully executed by both the borrower and relocation company with no right to cancel.

NON-MORTGAGE DEBTS PAID BY OTHERS

FANNIE MAE

When a borrower is obligated on a non-mortgage debt, but is not the party who is actually repaying the debt, the debt may be excluded from the borrower's recurring monthly obligations, with satisfactory documentation. This guideline applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment, revolving, lease payments, alimony, child support, and separate maintenance.

The mortgage loan file must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party documenting a 12-month satisfactory payment history. There must be no delinquent payments for that debt in order to exclude it from the borrower's debt-to-income ratio.

FREDDIE MAC

A non-mortgage debt may be excluded from the monthly DTI ratio when a party other than the borrower has been making timely payments on the debt for the most recent 12 months and the following requirements are met:

Debt Type	Eligibility and Documentation Requirements
<ul style="list-style-type: none"> • Installment (not including Mortgages) • Revolving • Monthly lease payment 	<p>Documentation in the Mortgage file must indicate the following:</p> <ul style="list-style-type: none"> • A party other than the borrower has been making timely payments for the most recent 12 months (regardless of whether the party is obligated on the debt); and • The party making the payments is not an interested party to the subject real estate or Mortgage transaction

The underwriter must evaluate the validity of circumstances under which the payments are being made by another party. For example, payments on multiple student loans made by the Borrower's parent represent a common situation. However, additional investigation and documentation might be necessary when a Borrower's multiple installment and revolving debts are being paid by the Borrower's spouse who is not on the subject Mortgage.

DEFERRED INSTALLMENT DEBT

Deferred installment debt must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly payment that will be payable at the end of the deferment period, a copy of the borrower's payment letter or forbearance agreement should be provided to document the payment amount to use in calculating the borrower's total monthly obligations. For information about deferred student loans, see [Student Loan](#) section.

FEDERAL TAX INSTALLMENT PLANS

The monthly payment due under an IRS income tax installment agreement can be included in the DTI ratio (in lieu of full payment), provided the following requirements are met:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.

- The underwriter must obtain the following documentation:
 - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
 - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date the next payment owed and due date. At least one payment must have been made prior to closing.

HOME EQUITY LINES OF CREDIT

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

INSTALLMENT DEBT

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

LEASE PAYMENTS

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

LOAN SECURED BY FINANCIAL ASSETS

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

MORTGAGE ASSUMPTIONS

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

MORTGAGES PAID BY OTHERS

When a borrower is obligated on a mortgage debt, but is not the party who is actually repaying the debt the monthly mortgage payment may be excluded from the calculation of the DTI ratio if the following can be documented:

- The party making the payments is obligated on the mortgage debt; and
- Document that someone other than the borrower makes the payments by obtaining copies of canceled checks, bank statements, etc.; and
- Most recent 12-month payment history with no delinquencies within the most recent 12 months; and
- The borrower is not using rental income from the applicable property to qualify
- The mortgaged property must still be included in the borrower's multiple financed property count; and
- Fannie Mae
 - The unpaid principal balance for the mortgage must still be included in the calculation of reserves for multiple financed properties.
- Freddie Mac
 - Two months of PITIA if the mortgage property and subject property is a second home or investment property.
 - The borrower is not on the title for the mortgaged property
 - The party making the payments is not an interested party to the subject real estate or mortgage transaction

PAYMENTS ON REAL ESTATE CO-OWNED

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

PAYMENTS ON REAL ESTATE MORTGAGES

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

PAYOFF OR PAYDOWN OF DEBT FOR QUALIFICATION

Payoff or pay-down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. As a rule of thumb:

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments should generally not be included in the borrower's long-term debt.
- If a revolving account is to be paid off at or prior to close, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income ratio.
- Open 30 day charge accounts must be paid off at or prior to closing if:
 - The borrower is unable to document sufficient assets to cover the unpaid balance or
 - The borrower is unable to document that the charges will be reimbursed by his or her employer.
- Collections, Charge-Offs, Judgments, Garnishments, and Liens:

Conventional Underwriting Guidelines

- Delinquent credit, including taxes, judgments, charged-off accounts. See below for exceptions. Tax liens, mechanics, or material-men's liens that have the potential to affect Fannie Mae's lien position or diminish the borrower's equity must be paid off at or prior to closing.
- Collection accounts or charged-off accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than \$250 or the total balance of all accounts is \$1,000 or less.

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

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

PROPERTY SETTLEMENT BUY-OUT

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

REVOLVING CHARGE ACCOUNTS

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense. If the credit report does not show a required minimum payment amount, use an amount equal to 5% of the outstanding balance.

STUDENT LOANS

Fannie Mae

For all student loans, whether deferred, in forbearance, or in repayment, not deferred, a monthly payment must be used when qualifying the borrower. Use one of the options below to determine the repayment amount:

- The monthly amount provided on the credit report. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment (which may be the case for deferred loans or loans in forbearance), the lender must calculate a qualifying monthly payment using one of the options below:
 - 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
 - A fully amortizing payment using the documented loan repayment terms.

For student loans associated with an income-driven repayment (IDR) plan, even if the payment is \$0, this can be used to qualify the borrower only if the loan is not in deferment.

Freddie Mac

Student loans in repayment, deferment, or forbearance:

Conventional Underwriting Guidelines

- If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or
- If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report.

Student loan forgiveness, cancellation, discharge and employment-contingent repayment programs

- The student loan payment may be excluded from the monthly debt payment-to-income ratio provided the mortgage file contains documentation that indicates the following:
 - The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, or
 - The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, at the end of the deferment or forbearance period; and
 - The borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and the Seller is not aware of any circumstances that will make the borrower ineligible in the future.

BORROWERS

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

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

BORROWER(S) AGE

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

RESIDENT AND IMMIGRATION STATUS

We will purchase mortgages made to non U.S. citizens who are lawful permanent or nonpermanent residents of the United States under the same terms, mortgage product, transaction type, occupancy status, and loan-to-value ratios that are available to United States citizens. Borrowers that are not citizens must currently reside in the United States to be eligible. DACA c(33) is a work status that is under a deferred action and does not provide lawful status, therefore, Individuals that are working under DACA authorization are not eligible

- Permanent Resident Alien status must be documented with a copy of the borrower(s)' green card.
- A Non-Permanent Resident Alien must have a valid social security number and evidence they are a lawful non-permanent resident of the United States with one of the following:

- An acceptable visa, or
- An acceptable expired visa along with I-797A with detachable I-94, or
- EAD card

Acceptable Visa includes:

- E Series (E-1, E-2, E-3)
- G Series (G-1, G-2, G-3, or G-4 only) which must document that the borrower does not have diplomatic immunity. Verification that the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List [here](#). The transmittal summary requires a comment indicating that the borrowers visa status does not require the payment of taxes and therefore tax transcripts are not available.
- H Series (H1-B, H1-C, H-2, H-3, H-4)
- L Series (L-1A, L-1B, L-2)
- O Series (O-1)
- NATO (TN-1 and TN-2) For NAFTA professionals from Canada and Mexico a VISA or EAD card is not required as long as the borrower(s) has an unexpired passport that is stamped with the H1B status.
- I-797 Notice of Action/Approval with valid dates. The document must refer to an acceptable visa classification as indicated above.

If a borrower's visa will expire within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided. If the EAD will expire within 6 months the borrower must show evidence they have applied for an extension or provide a letter from their employer indicating they will continue to sponsor their employment. Loans requiring MI may have additional restrictions.

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

A nonpermanent resident alien is an individual who seeks temporary entry to the United States for a specific purpose. The immigrant and Naturalization Service (INS) uses the word 'non-immigrant' to describe these individuals. The INS has several classifications for non-immigrants – foreign government officials, visitors for business or pleasure, aliens in transit through the United States, treaty traders and investors, students, international representatives, temporary workers and trainees, representatives of foreign information media, exchange visitors, fiancés or fiancées of U.S. citizens, intra-company transferees, and NATO officials. For most classifications, the 'non-immigrant' must have a permanent residence abroad and must qualify for the admission classification being sought. Flagstar must be able to evaluate a borrower's credit history to determine whether the borrower has demonstrated the willingness to meet credit obligations. To verify credit histories outside of the United States, lenders may obtain a credit report from a foreign independent credit reporting agency, if available, written verification directly from a bank or institutional creditor or any other common form of credit references used in the country where the borrower had established credit. Borrowers for whom an adequate credit history, either traditional or non-traditional, cannot be established will not be eligible

for a conventional mortgage until such time as the lender is able to obtain verification documenting that a credit history has been established.

All borrowers must have a social security number.

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

Flagstar must verify that the borrower has sufficient liquid assets to complete the mortgage transaction and to have adequate reserves after closing. Some borrowers may maintain assets outside of the United States or may not invest their assets with financial institutions in the United States. To acknowledge this practice, a lender may consider funds that have been recently deposited in a United States depository institution as an acceptable source of funds, as long as there is evidence that the funds were transferred from the country from which the borrower immigrated and it can be established that the funds were the borrower's prior to the date of the transfer. The source of all funds for closing should be verified just as they would for a borrower who is a U.S. citizen.

GUARANTORS OR CO-SIGNERS

A guarantor or co-signor is a credit applicant who does not have an ownership interest in the security property, but who signs the mortgage or deed of trust note and thus has joint and several liabilities for the note with the borrower who is the owner of the property. We will consider purchasing mortgages that have a guarantor or co-signer as long as the guarantor's or cosigner's liability is not qualified or limited in any manner. However, a party who had an interest in the property sales transaction – such as the property seller, the builder, the real estate broker, etc. – is not an eligible co-signer or guarantor.

Borrower Contribution

Assets that are owned by a non-occupant borrower can be included in the 5% minimum borrower contribution requirement, when applicable, and those funds must be entered in the online loan application. Total liquid assets for the occupying borrower and non-occupant borrower are included in DU's calculation of total available assets.

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

CO-OWNER

We will allow other individuals to sign just the mortgage or deed of trust and title, LE/CD and right of rescission but no other documents when their income and credit are not used to qualify. We will allow a co-signer to sign just the note and all other documents other than the mortgage and title when their income and credit are being used to qualify. To illustrate:

Signer	Mortgage/Title	Note	LE/CD	Right of Rescission
Co-signer		x	x	x
Co-owner	x		x	x

At a minimum, any individual whose income and credit are being used to qualify is required to sign the note, Loan Estimate, Closing Disclosure, and Right of Rescission.

NUMBER OF BORROWERS

Desktop Underwriter

The maximum number of borrowers Desktop Underwriter can assess on a single loan is four.

Loan Product Advisor

The maximum number of borrowers Loan Product Advisor can assess on a single loan is five.

SPOUSAL PROPERTY RIGHTS (NON-PURCHASING SPOUSE)

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

NON-ARMS-LENGTH TRANSACTIONS

Non-Arm's-Length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Non-arm length transactions include, but are not limited to:

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

Non-arm's length transactions for the purchase of existing properties are allowed, unless specifically forbidden for the particular scenario, such as delayed financing. Non-arm's length transactions are not eligible for the following transactions:

- Second Home New Construction
- Investment Property New Construction

CLOSING IN TRUST

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

- All property and occupancy types are eligible. For properties that are the borrower's principal residence, at least one individual establishing the trust must occupy the security property and sign the loan documents.

Conventional Underwriting Guidelines

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

An attorney's opinion letter stating all above warranties are met will be required on all loans closing in trust; or *Certificate of Trust*, [Doc. #3954](#)

- For California properties, a certificate of trust is acceptable in lieu of an attorney's opinion letter. Refer to the *California Trust Certificate*, [Doc. #3951](#).

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

Land trusts are not acceptable.

OCCUPANCY

PRINCIPAL RESIDENCE

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

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

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

MORTGAGED PREMISES OCCUPIED BY BORROWER'S PARENT OR DISABLED CHILD

The following describes the conditions under which the subject may be considered a primary residence even though the borrower will not be occupying the property.

In the *Declarations* section, the non-occupying borrower may select *Yes* for the question, *Does the Borrower intend to occupy the property as his/her primary residence?*

Flagstar, at its discretion, may determine that a property is not a primary residence.

Fannie Mae

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

Freddie Mac

A Borrower may be considered an occupying Borrower, if the Mortgaged Premises is occupied as a Primary Residence by an individual(s) who:

- Is the Borrower's parent(s), or
- Has a disability and the Borrower is the individual(s)'s parent or legal guardian

SECOND HOMES

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

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

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

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

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

INVESTMENT PROPERTIES

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

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

- Lease agreement; or
- Form 1007/1000; or
- Letter from seller, realtor, or borrower indicating the estimated market rent; or
- For refinance transactions, the amount from the REO section of the 1003 can be used; or
- The income listed on the schedule E from the borrower's 1040's; or
- Zestimate from Zillow.com. The Zestimate must be retained in the mortgage file.

REFINANCE

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

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

- The payoff of the outstanding principal balance of an existing first mortgage
- The payoff of the outstanding principal balance of an existing subordinate mortgage that was used in whole to acquire the subject property
- Fannie Mae - The financing of closing costs, including prepaid expenses, if an escrow account is being established and cash back to the borrower in an amount no more than the lesser of 2% of the balance of the new refinance or \$2,000, except Texas.
- Freddie Mac - The financing of closing costs, including prepaid expenses, if an escrow account is being established and cash back to the borrower in an amount no more than the greater of 1% of the balance of the new refinance or \$2,000, except Texas.
- A short-term refinance mortgage loan that combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage is considered a cash-out transaction. Any refinance of that loan within six months will also be considered a cash-out transaction.
- Properties currently listed for sale must be taken off the market and documentation to support the property is no longer listed must be provided prior to loan being in place in a Final Clear to Close status for loans underwritten by Flagstar and prior to note date for Delegated Correspondent.

Conventional Underwriting Guidelines

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

REFINANCES TO BUY OUT AN OWNER'S INTEREST

FANNIE MAE

A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.

All 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. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.

Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to Fannie Mae's underwriting guidelines.

FREDDIE MAC

Freddie Mac only will consider a buy-out as a result of a divorce decree to be treated as a limited cash-out refinance as long as the borrower who will be acquiring the property receives no cash-out of the proceeds from the transaction, is on the mortgage being paid off, and can document the borrower and co-owner jointly occupied the subject as their primary residence for a minimum of twelve months prior to initial loan application. A copy of the final divorce decree mandating this is necessary.

PROPERTY ASSESSED CLEAN ENERGY LOANS (PACE)

When paying off a Property Assessed Clean Energy (PACE) loan or other debt, secured or unsecured, that was used solely for energy improvements, the transaction may be treated as a rate and term refinancing if the following has been met.

- For a PACE loan originated prior to July 6, 2010, there is no limit on how much of the limited cash-out refinance loan amount may be used to pay off the PACE loan; or
- For a PACE loan originated on or after July 6, 2010, or other debt used for energy improvements, the payoff amount included in the limited cash-out refinance is limited to 15% of the appraised value of the property; and
- All other rate and term guidelines have been met.

CASH-OUT REFINANCES

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

Conventional Underwriting Guidelines

- Fannie Mae and Freddie Mac consider any transaction paying off a junior lien not acquired in whole for the initial purchase transaction to be a cash-out refinance.
- All transactions that involve the payoff of blanket mortgages will be treated as cash-out refinance loans.
- A property must have been purchased, or acquired, by the borrower at least six months prior to the disbursement date of the new mortgage loan except for the following:
 - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property, e.g. divorce, separation, or dissolution of a domestic partnership.
 - The delayed financing requirements are met.
 - Fannie Mae – If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six month ownership requirement. In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).
- Properties that were listed for sale must have been taken off the market and documentation to support the property is no longer listed must be provided prior to loan being in place in a Final Clear to Close status for loans underwritten by Flagstar and prior to note date for Delegated Correspondent.
- Cash-out refinances underwritten with DU for borrowers with a debt-to-income ratio exceeding 45% must have at least six months of reserves. If there are not at least six months of reserves, the loan casefile will receive an Ineligible recommendation. Loan casefiles with a debt-to-income ratio exceeding 50% will continue to receive an Ineligible response.

STUDENT LOAN CASH-OUT REFINANCES – FANNIE MAE

The student loan cash-out refinance feature allows for the payoff of student loan debt through the refinance transaction with a waiver of the cash-out refinance LLPA if all of the following requirements are met:

- The loan must be underwritten in DU. DU cannot specifically identify these transactions, but will issue a message when it appears that only subject property liens and student loans are marked paid by closing. The message will remind underwriters about certain requirements below; however, the underwriter must confirm the loan meets all of the requirements outside of DU.
- The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply, please refer to applicable product description.
- At least one student loan must be paid off with proceeds from the subject transaction with the following criteria:
 - Proceeds must be paid directly to the student loan servicer at closing;
 - At least one borrower must be obligated on the student loan(s) being paid off, and
 - The student loan must be paid in full - partial payments are not permitted.
- The transaction may also be used to pay off one of the following:
 - An existing first mortgage loan (including an existing HELOC in first-lien position); or
 - A single-closing construction-to-permanent loan to pay for construction costs to build the home, which may include paying off an existing lot lien.
- Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a PACE loan or other debt (secured or unsecured) that was used solely for energy improvements.

Conventional Underwriting Guidelines

- The transaction may be used to finance the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation.
- The borrower may receive cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or \$2,000.
- Unless otherwise stated, all other standard cash-out refinance requirements apply.
- Loans must be delivered with Special Feature Code (SFC) 003 and SFC 841.

RESTRUCTURE MORTGAGE LOANS

FANNIE MAE

The payoff of a restructured mortgage is eligible for both a rate and term and cash-out refinance without any additional documentation.

FREDDIE MAC

A mortgage in which the original terms have been changed, including through the origination of a new mortgage, resulting in any of the following:

- Forgiveness of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a mortgage that is fully forgiven over a period of time or due upon the sale of the subject property, i.e. a soft subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured

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

DELAYED FINANCING

FANNIE MAE

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

- The new loan amount is not more than the actual documented amount of the borrower's initial investment in purchasing the property, plus the financing of closing costs, prepaids, and points.
- The purchase transaction was an arms-length transaction.
- The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property.
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property, such as a HELOC secured by another property, the Closing Disclosure for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.
- The source of funds for the purchase transaction can be documented.
- All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.

Conventional Underwriting Guidelines

- The as is appraised value is used to determine LTV
- The borrower(s) must have initially purchased the property as one of the following:
 - A natural person
 - An eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust
 - An LLC or partnership in with the borrower(s) have an individual or joint ownership of 100%
- The preliminary title search must not reflect any existing liens on the subject property.
- Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

FREDDIE MAC

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

- The new loan amount is not more than the actual documented amount of the borrower's initial investment in purchasing the property, plus the financing of closing costs, prepaids, and points.
- The purchase transaction was an arms-length transaction.
- The original purchase transaction is documented by a settlement/closing disclosure, which confirms that no mortgage financing was used to obtain the subject property.
- If the source of funds used to acquire the property was unsecured loan or a loan secured by an asset other than the subject property, such as a HELOC secured by another property, the CD for the refinance transaction must reflect that all cash-out proceeds be used to pay off, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.
- The source of funds for the purchase transaction can be documented.
- All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.
- The as is appraised value is used to determine LTV.
- The preliminary title search must not reflect any existing liens on the subject property.
- Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

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

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

LAND CONTRACT REFINANCES

Purchase

When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract, also known as contract or bond for deed, that was executed and signed

within the 12 month proceeding the date of the loan application the transaction will be treated as a purchase.

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

Rate and Term Refinance

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

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

Cash-Out Refinance

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

CONTINUITY OF OBLIGATION

If a property being refinanced is owned free and clear, we must have satisfactory title work prior to closing evidencing no liens.

FREDDIE MAC

For all refinance transactions, a continuity of obligation must exist. An acceptable continuity of obligation, assuming that there is an outstanding lien against the property, exists when one of the following conditions is met:

- At least one borrower on the refinance mortgage was a borrower on the mortgage being refinanced; or
- At least one Borrower on the refinance mortgage held title to and resided in the mortgaged Premises as a Primary Residence for the most recent 12-month period and the mortgage file contains documentation evidencing that the borrower, either:
 - Has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 12-month period; or
 - Is a Related Person to a borrower on the mortgage being refinanced.
- At least one borrower on the refinance mortgage inherited or was legally awarded the mortgaged Premises (for example), in the case of divorce, separation or dissolution of a domestic partnership)
- If none of the Borrowers have been on the title to the subject property for at least six months prior to the note date of the cash-out refinance mortgage, the following requirement(s) must be met:
 - At least one borrower on the refinance mortgage inherited or was legally awarded the subject property (for example, in the case of divorce, separation or dissolution of a domestic partnership); or
 - Must meet the delayed financing requirements



Conventional Underwriting Guidelines

RIGHT OF RESCISSION

Please refer to *Compliance, Doc. #4801* for information regarding right of rescission.

OTHER

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

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

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

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

TEXAS REFINANCES

Determining the Type of Refinance

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

- Refinance applications with no new cash-out that do not include the payoff of subordinate financing: Loan applications that are intended only to refinance an outstanding first mortgage and reasonable and customary closing costs, where no subordinate financing is being paid off, will be underwritten as rate/term refinances. The underwriter must conduct a review of the title commitments at the time of underwriting to verify that no prior lien was a Texas Home Equity or 50(a)(6) lien. If the title commitment shows that a prior lien was originated as a Texas Home Equity lien, and that lien is being paid off from the proceeds of the new first mortgage, the loan will be re-underwritten as a Texas Home Equity cash-out refinance transaction. If an existing Texas Home Equity or 50(a)(6) lien is being fully subordinated, (only non-(a)(6) loan(s) being paid off), the new loan can be underwritten as a rate/term. Refinances of Texas Home Equity liens, even if no new cash-out is sought, must also be originated as Texas Home Equity liens, subject to the same disclosures and closing requirements as new Texas Home Equity loans.
- Refinance applications with no new cash-out that do include the payoff of subordinate financing: Loan applications that are intended to refinance an outstanding first mortgage, reasonable and customary closing costs and the outstanding balance of one or more subordinate liens must submit a preliminary title report with the underwriting submission package to determine if any existing lien is a Texas Home Equity lien and also to determine whether or not the subordinate financing was used to acquire the subject property.
- Refinance (Conversion) of a TX 50(a)(6) into a Non-TX 50(a)(6) must meet the following
 - The refinanced loan is signed at least a year after the original home equity loan was signed;
 - The refinanced loan cannot provide any additional money to the borrower other than to cover the costs to do the refinancing;
 - The refinanced loan cannot exceed 80% of the fair market value of the house; and
 - The borrower must be provided with the Notice Concerning Refinance of Existing Home Equity loan to Non-Home Equity Loan Disclosure within 3 days of the application and at least 12 or more days before the date of refinance.
 - The borrower must be provided with the Notice Concerning Refinance of Existing Home Equity loan to Non-Home Equity Loan Disclosure within 3 days of the application and at least 12 or more days before the date of refinance.

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

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

Texas Home Equity cash-out refinance, if the loan has been submitted under an Agency, such as Fannie Mae or Freddie Mac, loan product.

Eligible Homesteads

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

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

Eligibility Criteria

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

Applications with New Cash-Out

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

Exception

Fannie Mae considers a buy-out as a result of a divorce settlement to be treated as a rate-and-term refinance and allows up to a 90% LTV as long as the borrower who will be acquiring sole ownership of the property receives no cash-out of the proceeds from the transaction. A copy of the final divorce decree mandating the buy-out is necessary. Freddie Mac considers such transactions a standard cash-out refinance, non-Texas Home Equity cash-out refinance. The type of cash-out transaction, Texas Home Equity or non-Texas Home Equity, will determine the eligible loans programs, property types, loan-to-value ratios, and the disclosures and closing requirements that must be observed.

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

Miscellaneous Provisions

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

Cooling Off Period

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

Title Insurance

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

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

Texas Home Equity/50(a)(6) Right of Rescission

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

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

CONSTRUCTION-TO-PERMANENT FINANCING – FANNIE MAE

Construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence. The borrower must hold title to the lot. The construction must be complete and all liens mortgages, mechanics' liens, material-men's liens, etc. must be satisfied. The loan must be interfaced with a loan purpose of construction-to-permanent to Desktop Underwriter. When the borrower is purchasing a completed property from a builder, the transactions must be treated as a purchase and do not fall under these guidelines.

- Cash-out refinances are not eligible.
- New construction properties are not eligible for an Appraisal Waiver.
- Detached (Site) or Attached Condos, Desktop Underwriter will return an Approve/Ineligible, with the reason for ineligibility being the detached condominium as the property type. If the Approve/Ineligible response includes any other reasons the loan is not eligible. The loan must be delivered with Special Feature Codes 151 and 588.



Conventional Underwriting Guidelines

TWO SEPARATE CLOSING TRANSACTIONS

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

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

A construction-to-permanent financing mortgage may be closed as a limited cash-out refinance transaction.

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

LIMITED CASH-OUT

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

When a limited cash-out refinance transaction is used in connection with a lot that the borrower is on title, the LTV ratio is calculated by dividing the loan amount of the construction-to-permanent financing by the as-completed appraised value of the property.

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

MAXIMUM MORTGAGE AMOUNTS

2019 FANNIE MAE/FREDDIE MAC CONVENTIONAL LOAN LIMITS

General Loan Limits		
Units	Contiguous States, District of Columbia and Puerto Rico	Alaska, Guam, Hawaii and US Virgin Islands
One	\$484,350	\$726,525
Two	\$620,200	\$930,300
Three	\$749,650	\$1,124,475
Four	\$931,600	\$1,397,400

High-Cost Area Loan Limits		
Units	Contiguous States, District of Columbia and Puerto Rico	Alaska, Guam, Hawaii and US Virgin Islands
One	\$726,525	Not Applicable
Two	\$930,300	
Three	\$1,124,475	
Four	\$1,397,400	

SUBORDINATE FINANCING

Generally, we will make mortgages that are subject to subordinate financing held by another investor as long as the lien is recorded and clearly subordinate to our mortgage lien. Fannie Mae and Freddie Mac all

Conventional Underwriting Guidelines

subordinate financing on owner-occupied second homes and investment properties involving the use of a home equity line of credit. The loan file must disclose subordinate financing repayment terms to the underwriter and the appraiser.

Generally, we can approve first mortgages that are subject to first mortgage subordinate financing held by another investor as long as the subordinate lien is recorded and will be clearly subordinate to our mortgage lien. When subordinate financing is left in place in connection with a first mortgage refinance transaction or will be new with a first mortgage purchase money transaction, we require the execution and recordation of a subordination agreement.

PURCHASE TRANSACTIONS

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

REFINANCE TRANSACTIONS

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

ACCEPTABLE SUBORDINATE FINANCING TYPES

- Variable payment mortgages that comply with the following terms:
 - With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. For HELOCs, the monthly payment does not have to remain constant.
 - The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur.
 - If the subordinate financing is from the borrower's employer, financing may be either an unsecured loan or a mortgage and does not have to require regular payments of either principal and interest or interest-only.
- Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
- Mortgage terms that require interest at a market rate. If financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.
- Refer to product guidelines for the *Community Second Program*, [Doc. #5932](#), and *Gift/Grant Program*, [Doc. #5935](#).

ELIGIBLE VARIABLE PAYMENT TERMS

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

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

ELIGIBLE REPAYMENT TERMS FOR EMPLOYER SUBORDINATE FINANCING

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

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

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

UNACCEPTABLE SUBORDINATE FINANCING

- Subordinate financing with wrap-around terms that combine the indebtedness of the first mortgage with that of the subordinate mortgage.
- Mortgages with negative amortization with the exception of employer subordinate financing that has deferred payments.
- Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage, with the exception of employer subordinate financing that has deferred payments. Subordinate loans with less than five years remaining will be acceptable if the balance owing on subordinate lien is less than 20% of the balance owed on the 1st mortgage or if the borrower has sufficient reserves to pay off subordinate financing.
- Community Second liens cannot be subordinated on cash-out transactions for conventional loans.
- ELTAP lien
- PACE liens, except for properties in CA, where the PACE obligation will subordinate

MAXIMUM TOTAL LOAN-TO-VALUE RATIO

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

SMALL BUSINESS ADMINISTRATION LOANS (SBA)

Fannie Mae

Small business administration loans secured by the subject property must be treated as subordinate financing and be included in the calculation of the CLTV and HCLTV ratios. The

Conventional Underwriting Guidelines

monthly payment of the subordinate lien must also be included in the borrower's DTI ratio calculation unless the requirements of business debt in the borrower's name can be met.

Freddie Mac

The SBA must be included in the TLTV and borrower must qualify with the payment.

DEFINING REFINANCE TRANSACTIONS BASED ON SUBORDINATE LIEN PAYOFF

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

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

PRIVATE MORTGAGE INSURANCE

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

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

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

Conventional Underwriting Guidelines

Anytime a loan has an increase in the interest rate, the MI Company must approve the increase prior to closing and the file returned to the underwriter to be reviewed. MI must be disclosed on the Loan Estimate, First Payment Letter and Closing Disclosure.

STANDARD MORTGAGE INSURANCE

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

MONTHLY MORTGAGE INSURANCE

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

FINANCED SINGLE PREMIUM MORTGAGE INSURANCE

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

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

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

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

- Loans receiving an *Accept* response:
 - The mortgage insurance premium must be paid with a single premium payment.

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

property seller. If the lender or the seller pays the mortgage insurance, the contribution must be included in the calculation of the total value of the financing concessions.

LENDER PAID MORTGAGE INSURANCE (LPMI)

Refer to product descriptions for details

- MI Certificate must be ordered at the time interest rate is locked to insure correct pricing
- If loan is locked prior to obtaining the LPMI certificate, loan may be subject to re-pricing

LOANS WITH DTI >45%

MGIC

Loans with a DTI that exceeds 45% will require a minimum credit score of 700 regardless of Mortgage Insurance type.

Radian

For Single Premium Mortgage Insurance, loans with a DTI that exceeds 45% will require a minimum credit score of 700 and is limited to a 95% LTV.

NEW YORK PROPERTIES

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

Policy for Determining If Mortgage Insurance is Required		
Property Type	Loan Purpose	Policy
SFR, 2 to 4-Unit, Condo and PUD	Purchase and all refinance transactions	The appraised value is used to determine if mortgage insurance is required.
Co-op	Purchase	The sales price is used to determine if mortgage insurance is required.
Co-op	Refinance	The appraised value is used to determine if mortgage insurance is required.

Policy for Determining the Level of Mortgage Insurance Coverage	
Property Type	Policy
LTV ratio based on the lower of the sales price or appraised value (standard LTV ratio calculation) for all property types	Irrespective of the use of appraised value or sales price for determining whether mortgage insurance is required, the standard LTV ratio calculation must be used to determine the level of mortgage insurance coverage that is required.

REDUCED AND LOW-COST MORTGAGE INSURANCE

Not available.

INELIGIBLE TRANSACTIONS

- Any LTV above 97%

- Loans with potential negative amortization
- Interest-only loans
- Manufactured homes
- 3 to 4-unit properties
- Refinances with reduced payoffs (short refinance/payoff)
- Borrower(s) using an ITIN

Always check the MI Company website for details and restrictions.

INCOME AND EMPLOYMENT

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

Borrowers should not be considered favorably if adequate future income can be anticipated because their education and training will expand their job opportunities. A borrower who changes jobs frequently to advance within the same line of work and is successful in that work should receive favorable consideration. On the other hand, job-hopping without advancement or from one line of work to another, may indicate an inability to master a job and could lead to unstable income. Borrowers with questionable employment histories must have offsetting financial strengths to be considered for maximum financing. In addition, negative comments received from an employer could be reason to deny an application. However, before doing so, the underwriter must perform a detailed investigation of the comments and arrive at a precise reason to support its underwriting decision.

EMPLOYMENT STABILITY

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

FREQUENT JOB CHANGES

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

Example: Frequent changes in employment for reasons other than advancement, e.g. changing careers, or extended periods of unemployment may be indicative of an unsteady work history and income. Borrowers with questionable employment histories must have financial strength in order to be considered for maximum financing. Negative comments received from an employer may or may not be reason to decline the application, but circumstances must be investigated thoroughly before doing so. Borrowers who work in certain industries may experience frequent job changes due to the nature of the work, e.g. seasonal or unskilled labor. In these instances borrowers should not be penalized provided they have demonstrated the ability to maintain a steady income despite the changes.

CALCULATING INCOME

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

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

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

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

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

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

Annually: Annual Rate of Pay, without overtime, bonus, or commissions/12 = Monthly Base Pay

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

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

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

UNACCEPTABLE SOURCES OF INCOME

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

- Income based on future wage increases
- Draw Income
- VA Education Benefits

- Income not listed on Tax Returns or income that cannot be documented and verified.

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

TYPES OF INCOME

ALIMONY OR CHILD SUPPORT

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

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

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

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

ANNUITY INCOME

Annuity income is similar to pension and Social Security income except that it may not be payable for life. A copy of the most recent updated annuity renewal statement showing the effective date, amount, frequency, and duration of the benefit payments showing income will continue for at least three years must be obtained.

AUTOMOBILE ALLOWANCES

The full amount of an automobile allowance may be included as income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income ratio. **The borrower must have received the payments for the last two consecutive years.**

BOARDER INCOME

Fannie Mae

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

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered **as acceptable stable income, in an amount up to 30% of the total income that is used to qualify** the borrower for the mortgage. Personal assistances typically are paid by Medical Waiver funds and include room and board, from which rental payments are made to the borrower.
- HomeReady has an additional exception, refer to *Fannie Mae HomeReady*, [Doc. #5318](#).

Freddie Mac

Rental income from boarders in a 1-unit property that is also the borrower's principal residence, including an accessory unit, is not generally considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in-aide. Personal aides typically are paid by Medical Waiver funds and include room and board, from which rental payments are made to the borrower. Must have receipt of income for the most recent 12 months and may be considered in an amount up to 30% of the total income used to qualify.

BONUS INCOME

Bonus income can be used to qualify the borrower if the employer verifies that the borrower has received it for the past two years and indicates that the bonus income will in all probability continue. The consistency with which the borrower receives bonus income must be determined. Bonuses that are received annually or on another periodic basis are acceptable, even if the amount of the bonus fluctuates. However, an average of the last two years of bonus income should be used to determine the amount of income that can be used in qualifying the borrower. Projected bonus income that has no historical basis is not an acceptable source of income.

CAPITAL GAINS INCOME

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

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

MINISTER/CLERGY/HOUSING/PARSONAGE INCOME

Clergy income must be reported as wage, parsonage, housing or honorarium income on filed returns to be considered for qualification. Income cannot be documented solely with a **WVOE (form 1005)**. If the parsonage or honorarium income is not reported on the filed returns, but is reflected in box 14 of the W2 or box 3 of the 1099, the income can be used for qualifying purposes. If the borrower is considered self-employed and the income is not reported on the filed returns the income can be used for qualifying purposes if the borrower provides the IRS Form 4361, Application for Exemption from Self-Employed Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners that is marked approved and is signed by a director with the IRS. Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

COMMISSION INCOME

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

- One of the following must be obtained to document commission income:
 - a completed Request for Verification of Employment (Form 1005), OR
 - The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period

CONVERTING FROM PART TIME TO FULL TIME

When a borrower is converting from part time to full time with the same employer, the income must be documented with a paystub reflecting 30 days year-to-date earnings of full time employment along with a **WVOE (Form 1005)** to document the date the borrower transitioned to full time in order to use the current wages.

CORPORATE RELOCATIONS

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

DISABILITY INCOME

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

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

- Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine:
 - The borrower's current eligibility for the disability benefits, and
 - The amount and frequency of the disability payments, and
 - If there is contractually established termination or modification date
 - Document current receipt with a bank statement, pay statement, benefit verification letter, notice of award letter, or other equivalent documentation (Freddie Mac only)

Social Security income for long term disability will not have defined expiration date and must be expected to continue. [See Social Security Income section for required documentation.](#)

EMPLOYMENT CONTRACTS

Fannie Mae

When a borrower has an employment contract, but will not start prior to close, the income may be used for qualifying provided all of the following requirements have been met:

ELIGIBILITY

- Purchase transaction,
- Principal residence,
- One-unit property,
- The borrower is not employed by a family member or by an interested party to the transaction, and
- The borrower is qualified using only fixed based income.
- The employment start date as shown on the employment offer or contract must be within 90 days of the note date.

DOCUMENTATION

The borrower's offer or contract for future employment must be provided. The employment offer or contract must:

- Clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
- Clearly identify the terms of employment, including position, type and rate of pay, and start date; and
- Be non-contingent. Note: If conditions of employment exist, the underwriter must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.

RESERVES

The underwriter must document, in addition to the amount of reserves required by DU or for the transaction, one of the following:

- Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or

Conventional Underwriting Guidelines

- Financial reserves or current income sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. Current income refers to income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. Current income may be used in lieu of or in addition to financial reserves.

For this purpose, the underwriter may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, and no verification of employment is required. For calculation purposes, consider any portion of a month as a full month.

On primary residence, one-unit, purchase transactions when the years and months on job in DU are 0 or blank, DU will issue a message specifying the requirements specific to these transactions. The message will indicate that if the lender does not obtain a paystub and confirm the borrower has started employment prior to delivery of the mortgage loan, the lender must confirm the loan meets the additional eligibility requirements of the updated policy, and that the loan must be delivered with SFC 707.

Freddie Mac

For borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income, provided that either all requirements for option one, or all requirements for option two in the following table are met.

Subject	Option One	Option Two
Eligible employment and income	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> Income must be from new primary employment or a future salary increase with the current primary employer Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction 	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> Income must be from new primary employment Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction As of the Delivery Date, the income must be no less than that used to qualify the Borrower for the Mortgage
Start date of the new employment or future salary increase, as applicable	<ul style="list-style-type: none"> Must be no later than 90 days after the Note Date May be before or after the Delivery Date 	<ul style="list-style-type: none"> No limit on the number of days after the Note Date Must be before the Delivery Date
Eligible loan purpose	The Mortgage must be originated for one of the following purposes:	The Mortgage must be originated for one of the following purposes:

Conventional Underwriting Guidelines

Subject	Option One	Option Two												
	<ul style="list-style-type: none"> • Purchase transaction • Rate and Term 	<ul style="list-style-type: none"> • Purchase transaction • Rate and Term • Cash-out refinance 												
Eligible Mortgaged Premises	The Mortgaged Premises must be a 1-unit Primary Residence	The Mortgaged Premises must be one of the following: <ul style="list-style-type: none"> • 1- to 4-unit Primary Residence • Second home • 1- to 4-unit Investment Property 												
Verification of additional funds	<p>In addition to funds required to be paid by the Borrower and Borrower reserves, the underwriter must verify additional funds in the Borrower's depository and/or securities account(s) that equal or exceed the amount of the monthly housing expense (PITIA) and all other monthly liabilities that are due between the Note Date and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for the purpose of this calculation.</p> <p>The amount of the required <u>additional</u> funds may be reduced by the amount of verified gross income (the amount of income the borrower(s) received prior to the future income) that any Borrower on the Mortgage is expected to earn during the period described above, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase.</p> <p>Income used to reduce reserves but not qualify the borrower must follow standard income documentation requirements (e.g., paystub, W2 and VVOE).</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #d3d3d3;"> <th colspan="2" style="text-align: left; padding: 5px;">Example: Borrower will start employment 60 days from Closing</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Verified gross income that will be received prior to future income</td> <td style="padding: 5px; text-align: right;">\$5000</td> </tr> <tr> <td style="padding: 5px;">PITIA + All other liabilities</td> <td style="padding: 5px; text-align: right;">\$6000</td> </tr> <tr> <td style="padding: 5px;">Additional Reserves 60 days plus 1 additional month</td> <td style="padding: 5px; text-align: right;">\$18,000 (PITIA + liabilities x 3)</td> </tr> <tr> <td style="padding: 5px;">Reduction in reserves</td> <td style="padding: 5px; text-align: right;">\$10,000 (income x 2)</td> </tr> <tr> <td style="padding: 5px;">Additional Reserved to be verified</td> <td style="padding: 5px; text-align: right;">\$8,000</td> </tr> </tbody> </table>		Example: Borrower will start employment 60 days from Closing		Verified gross income that will be received prior to future income	\$5000	PITIA + All other liabilities	\$6000	Additional Reserves 60 days plus 1 additional month	\$18,000 (PITIA + liabilities x 3)	Reduction in reserves	\$10,000 (income x 2)	Additional Reserved to be verified	\$8,000
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Reduction in reserves	\$10,000 (income x 2)													
Additional Reserved to be verified	\$8,000													
Required documentation	The following documentation is required: <ul style="list-style-type: none"> • Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that: <ul style="list-style-type: none"> ○ Is fully executed and accepted by the Borrower ○ Is non-contingent or provide documentation, such as a letter or e-mails from the employer 	The following documentation is required: <ul style="list-style-type: none"> • Copy of the employment offer letter or employment contract that: <ul style="list-style-type: none"> ○ Is fully executed and accepted by the Borrower, and ○ Includes the terms of employment, including but not limited to, employment start date and annual income 												

Subject	Option One	Option Two
	<p>verifying all contingencies have been cleared, and</p> <ul style="list-style-type: none"> ○ Includes the terms of employment, including employment start date and annual income based on non-fluctuating earnings • For a future salary increase provided by the Borrower's current employer, the above documentation must indicate that the increase is fully approved and is explicitly granted to the Borrower • A 10-day pre-closing verbal verification of employment verifying the terms of the employment offer letter, contract or future salary increase have not changed • Documentation of additional funds, as required above 	<p>based on non-fluctuating earnings</p> <ul style="list-style-type: none"> • Documentation of additional funds, as required above

Both options:

- Special Feature H57 must be applied to the loan.

EMPLOYMENT-RELATED ASSETS AS QUALIFYING INCOME FOR FANNIE MAE

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

Asset Requirements

Assets used for monthly income stream must be owned individually by the borrower, or the co-owner of the asset must be a co-borrower of the subject property. Assets must be liquid and available to the borrower.

- Non-self-employed severance package or non-self-employed lump sum retirement package, i.e. a lump sum distribution, must be documented with a distribution letter from the employer (1099R) and deposited to a verified asset account.
- 401(k) or IRA, SEP, KEOGH retirement accounts, the borrower must have unrestricted access to the funds in the accounts and can only use the account if distribution is not already set up or the distribution amount is not enough to qualify. The account and its composition must be documented with the most recent monthly, quarterly, or annual statement.
- If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.

Conventional Underwriting Guidelines

- If the employment–related assets are in the form of stocks, bonds, and mutual funds, 70% of the value (remaining after costs for the transaction and consideration of any penalty) must be used to determine the income stream to account for the volatile nature of these assets.
- A borrower shall only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).

Ineligible Assets

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

Net Documented Assets

Net documented assets are equal to the sum of eligible assets minus:

- The amount of the penalty that would apply if the account was completely distributed at the time of calculation;
- The amount of funds used for down payment, closing costs, and required reserves;
- 30% of the remaining value of any stocks, bonds, or mutual funds assets [after the calculation in (b)].

Example: Calculation of net Documented Assets	
IRA (made up of stocks and mutual funds)	\$500,000
Minus 10% of \$500,000 (\$500,000 x .10) (assumes the borrower is not yet 59 1/2 years of age at the time this income is being calculated; therefore, it is subject to a 10% penalty for early distribution. This penalty must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)	(-) \$50,000
Total eligible documented assets	(=) \$ 450,000
Minus funds required for closing (down payment, closing costs, reserves)	(-) \$100,000
(a) Subtotal	(=) \$ 350,000
Minus 30% of \$350,000 (\$350,000 x .30) (assumes funds are in the form of stocks, bonds, and mutual funds)	(-) \$105,000
(b) Net Documented Assets	(=) \$245,000
Monthly income calculation (\$245,000/360 (or applicable term of loan in months)) See Income Calculation/Payout Stream in table below.	\$680.56/month

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

Loan Parameters for Employment-Related Assets	
Parameter	Transaction Requirements
Maximum LTV/CLTV/HCLTV	70% ¹
Minimum Credit Score	620 credit score
Loan Purpose	Purchase and limited cash-out refinance only

Loan Parameters for Employment-Related Assets	
Parameter	Transaction Requirements
Occupancy	Principal residence and second home only
Number of units	Fannie Mae: 1 to 4-Units.
Income Calculation/Payout Stream	Divide “Net Documented Assets” by amortization term of the mortgage loan (in months).

1. 80% when the asset owner is at least 62 years old at the time of loan closing. If the asset(s) is jointly owned, all owners must be borrowers on the loans and the borrower whose employment-related asset is being as income must be at least 62 years old at the time of closing.

NON-EMPLOYMENT-RELATED ASSETS AS QUALIFYING INCOME FOR FANNIE MAE

When the borrower has liquid assets that are not employment-related, the assets may be used to qualify the borrower if the following terms are met:

Eligible Property and occupancy types

- 1 and 2-unit Owner Occupied
- Second Home

Ineligible Property and Occupancy Types

- Investment Properties
- 3 to 4-units
- Manufactured Homes

Maximum LTV/CLTV/HCLTV

- 80% LTV/CLTV/HCLTV for Purchase and Rate and Term Refinance
- 60% LTV/CLTV/HCLTV for Cash Out Refinance

Minimum Fico Score

- 680 for Mortgages with LTVs less than or equal to 70%
- 720 for Mortgages with LTVs greater than 70%

Income Verification

To determine whether the borrower qualifies for the Mortgage, the underwriter may convert the borrower’s Other Financial Assets into an income stream as described in the Monthly Income Stream Calculation section below.

The income derived from the monthly income stream calculation must be entered as “Other Income” on the Uniform Residential Loan Application. Other Financial Assets used in the conversion technique shall not be considered as assets available for closing costs or reserves.

Interest, dividends, and capital gains from Other Financial Assets (reported on the borrower’s tax return) cannot be used as additional income.

Reserves

- Per the underwriting guidelines

- The borrower's minimum reserve requirements may not be satisfied using any of the Other Financial Assets that are being converted into an income stream.

Asset Requirements

- Other Financial Assets must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loans.
- Other Financial Assets used for the calculation of the monthly income stream must be liquid and available to the borrower with no penalty.
- If the Other Financial Assets are in the form of stock, bonds, mutual funds, or U.S. savings bonds, 70% of the value (remaining after costs for the transaction) must be used to determine the income stream to account for the volatile nature of these assets.
- If assets are in the form of demand deposit account, savings account or certificate of deposit, 100% of the value may be used to determine the income stream.
- Net documented assets are equal to:
 - The sum of eligible documented Other Financial Assets minus any funds that will be used for closing or required reserves, and
 - Minus 30% of the remaining value of any stocks, bonds, mutual funds, or U.S. savings bonds assets (after the calculation in (a)).

Example:

Checking and savings accounts \$40,000

IRA - made up of stocks and mutual funds \$500,000

Funds required for closing - Down payment, closing costs, reserves (- \$100,000)

Remaining IRA assets (\$500,000 - \$60,000 used at closing)

\$440,000

Minus 30% 132,000

\$308,000 Net documented assets

Minimum Asset Amount

The minimum amount of the Other Financial Assets required is as follows:

- Purchase and Rate and Term Refinance: the lesser of one and one half times the original UPB or \$500,000.00.
- COR: \$500,000.00

Minimum Seasoning of Asset

The minimum seasoning of the Other Financial Assets is as follows:

- Purchase and Rate and Term Refinance
 - 12 months with minimum FICO 720
 - 24 months with FICO less than 720
- Cash-Out Refinance
 - 24 months

Eligible Asset Types

Assets Eligible as Other Financial Assets:

- The same eligible liquid financial assets that may be used for the borrower's reserves, which includes:
 - Checking and savings accounts;
 - Investments in stocks, bonds, mutual funds, CD's, money market funds, and trust accounts; and
 - Cash value of a vested life insurance policy
- Funds from the sale of investment properties.

Assets Ineligible as Other Financial Assets:

- Assets that are ineligible as borrower's reserves, which includes:
 - Funds that have not been vested;
 - Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death;
 - Stock held in an unlisted corporation;
 - Non-vested stock options and non-vested restricted stock;
 - Personal unsecured loans; and
 - Cash proceeds from a cash-out refinance transaction on the subject property

Monthly Income Stream Calculation

Either of the following two methods of calculating income stream may be used to qualify the borrower:

1. Monthly Income Stream By Term Of Mortgage Calculation:

Convert the borrower's net documented assets by the amortization terms of the Mortgage (in months).

Example of Calculation:

- Present Value: \$1,000,000
- 30 year Mortgage: 360
- Income: \$2777.77

2. Monthly Income Stream By Annuity Calculation:

Convert the borrower's net documented assets into an income stream through the use of an annuity calculation.

- The annuity calculation is as follows:
 - Present Value = net documented assets for conversion.
 - Future Value = zero
 - Interest Rate = the most recent 2 year average, rounded to the next highest full percentage point of the mid-term applicable federal rate as defined in Section 1274(d) of the IRS Code of 1986.
 - Number of Periods (i.e. payments) = the greater of the term of the Mortgage in months or 180 months.

Solve for Payment to determine the monthly annuity amount to be used as qualifying income.

Calculation must be set for annuity payments due at the beginning of the period.

Example of Calculation:

- Present Value: \$1,000,000
- Future Value: Set to 0
- Interest Rate: 2%
- Number of Periods: 360 (30 Year Term)
- Payment: \$3,690

SFC 579 must be applied to the loan.

ASSETS AS A BASIS FOR REPAYMENT OF OBLIGATIONS FREDDIE MAC

Assets that will be used by the Borrower for the repayment of their monthly obligations may be used to qualify the Borrower for the Mortgage, provided that the requirements listed below are met. The Uniform Residential Loan Application should include information pertaining to the Borrower's employment and income, even if the Borrower qualifies for the Mortgage solely based on assets.

Mortgage Eligibility Requirements

The assets described in the table below may only be used to qualify the Borrower if the Mortgage meets all of the following requirements:

- The Mortgage is secured by a 1 or 2 unit Primary Residence or a second home
- The Mortgage is either a purchase transaction, rate and term refinance or Freddie Mac Relief Refinance Mortgage
- The Mortgage has a maximum loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio of 80%

Asset Calculation for Establishing the Debt Payment-To-Income Ratio

To determine the amount used to establish the debt payment-to-income ratio, the underwriter must use the net eligible assets (as described below), divided by 360 months, regardless of loan term.

The amount of net eligible assets is calculated by subtracting the following from the total eligible assets:

- Any funds required to be paid by the Borrower to complete the transaction (e.g., Down Payment and Closing Costs)
- Any gift funds and borrowed funds, and
- Any portion of assets pledged as collateral for a loan or otherwise encumbered

Asset Eligibility and Documentation Requirements

The assets described below may be used to qualify the Borrower for the Mortgage, provided that the assets meet the following requirements:

Asset Type	Asset Eligibility Requirements	Documentation Requirements
Retirement Assets	<ul style="list-style-type: none"> • The retirement assets must be in a retirement account recognized 	<ul style="list-style-type: none"> • Most recent retirement asset account statement

Conventional Underwriting Guidelines

Asset Type	Asset Eligibility Requirements	Documentation Requirements
	<p>by the Internal Revenue Service (IRS) (e.g., 401(k), IRA)</p> <ul style="list-style-type: none"> • Borrower must be the sole owner • The asset must not currently be used as a source of income by the Borrower • As of the Note Date, the Borrower must • have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty or an additional early distribution tax • The Borrower's rights to the funds in the account must be fully vested 	<ul style="list-style-type: none"> • Documentation evidencing asset eligibility requirements are met
Lump-sum distribution funds not deposited to an eligible retirement asset	<p>If the lump-sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement assets described above.</p> <ul style="list-style-type: none"> • Lump-sum distribution funds must be derived from a retirement account recognized by the IRS (e.g., 401(k), IRA) and must be deposited to a depository or non-retirement securities account • A Borrower must have been the recipient of the lump-sum distribution funds • Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the funds from the lump-sum distribution • The proceeds from the lump-sum distribution must be immediately accessible in their entirety • The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty or early distribution tax 	<ul style="list-style-type: none"> • Employer distribution letter(s) and/or check-stub(s) evidencing receipt and type of lump-sum distribution funds; IRS 1099-R (if it has been received) • Satisfactorily documented evidence of the following: <ul style="list-style-type: none"> ○ Funds verified in the non-retirement account and used for qualification must have been derived from eligible retirement assets ○ Lump-sum distribution funds must not have been or currently be subject to a penalty or early distribution tax
Depository accounts and Securities	<ul style="list-style-type: none"> • The Borrower must solely own assets or, if asset is owned jointly, each asset owner must be a Borrower on the Mortgage and 	<ul style="list-style-type: none"> • Streamlined Accept: Provide an account statement covering a one-month period or a direct account verification (i.e., VOD)

Conventional Underwriting Guidelines

Asset Type	Asset Eligibility Requirements	Documentation Requirements
	<p>/or on the title to the subject property</p> <ul style="list-style-type: none"> • At least one Borrower who is an account owner must be at least 62 years old • As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty • Account funds must be located in a United States- or State-regulated financial institution and verified in U.S. dollars 	<ul style="list-style-type: none"> • Standard Documentation: Provide account statement(s) covering a two-month period or a direct account verification (i.e., VOD) • OR, regardless of the Documentation Level: <p style="margin-left: 20px;">For securities only, if the Borrower does not receive a stock/security account statement</p> <ul style="list-style-type: none"> ○ Provide evidence the security is owned by the Borrower, and ○ Verify value using stock prices from a financial publication or web site • Documentation evidencing asset eligibility requirements are met • Sourcing deposits: <ul style="list-style-type: none"> ○ The underwriter must document the source of funds for any deposit exceeding 10% of the Borrower's total eligible assets in depository accounts and securities, and verify the deposit does not include gifts or borrowed funds, or reduce the eligible assets used to qualify the Borrower by the amount of the deposit ○ When the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the Mortgage file, the underwriter is not required to obtain additional documentation
Assets from the sale of the Borrower's business	<ul style="list-style-type: none"> • The Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account • Parties not obligated on the Mortgage may not have an ownership interest in the account 	<ul style="list-style-type: none"> • Most recent three months' depository or securities account statements • Fully executed closing documents evidencing final sale of business to include sales price and net proceeds • Contract for sale of business

Conventional Underwriting Guidelines

Asset Type	Asset Eligibility Requirements	Documentation Requirements
	<p>that holds the proceeds from the sale of the Borrower's business</p> <ul style="list-style-type: none"> • The proceeds from the sale of the business must be immediately accessible in their entirety • The sale of the business must not have resulted in the following: retention of business assets, existing secured or unsecured debt, ownership interest or seller-held notes to buyer of business 	<ul style="list-style-type: none"> • Most recent business tax return prior to sale of business • Satisfactorily documented evidence of the following: <ul style="list-style-type: none"> ○ Funds verified in the non-retirement account and used for qualification must have been derived from the sale of the Borrower's business

All borrowers, whose assets are used for qualifying must sign Internal Revenue Service (IRS) Form 4506-T prior to and at close.

EMPLOYED BY FAMILY

Borrowers must provide the preceding two years' signed and dated, individual tax returns with all supporting schedules, and a 4506-T for all applicable tax returns for prior years to document less than 25% ownership. A borrower may be an officer of a family operated business, but not an owner. If the borrower owns less than 25% income must be documented per DU or LPA.

FOREIGN INCOME

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

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

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

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

* An investment property address cannot be used to obtain the credit report and submit to AUS

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

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

FOSTER CARE INCOME

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

Foster care income may be verified by:

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

GAP IN EMPLOYMENT

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

INTEREST AND DIVIDENDS

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

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

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

MILITARY INCOME

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

- Flight pay
- Hazardous duty pay
- Rations
- Clothing allowance (usually paid yearly)
- Housing allowances

Education benefits may not be used to calculate qualifying income.

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

- Military rank
- Social Security Number
- Military address
- Length of active service to date

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

MORTGAGE CREDIT CERTIFICATES

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

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

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

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

NEWLY EMPLOYED

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

NOTES RECEIVABLE

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

NON-OCCUPYING CO-BORROWER'S INCOME

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

OVERTIME INCOME

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

The stability of the overtime income must also be determined. It is important to establish an earnings trend for overtime income. Annual overtime earnings that are level or increasing from one year to the next are acceptable. However, if the trend for overtime earnings shows a decline, they will not be considered as stable. For example, if the borrower's year-to-date paystub indicates the regular receipt of overtime earnings for the current year, the overtime income generally will be acceptable in spite of the earlier declines; however, if the borrower has recently changed positions (but not employers), the effect of the change on the borrower's eligibility and opportunity to receive overtime income must be determined. Projected overtime pay that has no historical basis is not an acceptable source of income. In some cases, despite an ordinarily acceptable history of receipt of overtime income, Flagstar Bank may elect not to allow a borrower to be qualified using overtime pay as a function of topical media news indicating the borrower is employed in a financially troubled company or industry.

PART-TIME INCOME

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

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

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

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

PROFESSIONAL GAMBLER

When the borrower has income derived from gambling the following requirements must be in order to use for qualifying:

- The income must be reported as self-employed; and
- Two years tax returns must be provided to document income has not declined

PUBLIC ASSISTANCE

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

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

RE-ENTERING THE WORK FORCE

For a borrower who is re-entering the workforce and has less than a two-year employment and income history, the borrower's income may be used for qualifying as long as the borrower has been at the current employer for a minimum of six months prior to the application date and there is evidence of previous employment history.

RENTAL INCOME

Calculating Monthly Net Rental Income or Loss

When the subject property will be rented and is a 1-4 unit investment property or 2-4 unit principal residence, you must calculate rental income as follows if the borrower is not being qualified with the full PITI payment:

Rental Income From the Security Property		
Does Borrower Have History of Receiving Rental Income From Property?	Documentation Requirements	Calculate Monthly Net Rental Income (or Loss)
Yes	<p>Document the rental cash flow by obtaining a copy of the most recent year filed tax return, pages 1 and 2 and Schedule E.</p> <p>A signed lease may be used if the property was out of service during any period of the prior year due to renovations as supported by schedule E reflecting repair costs and reduced number of days in use. Documentation is required to ensure the expenses support a significant renovation to support time the property was out of service.</p> <p>See Appraisal Addendum requirements for investment and 2-4 unit properties-subject property for additional requirements</p>	<p>Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns; or</p> <p>75% of the gross rent from the lease agreement, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses. if allowable</p> <p><u>Freddie Mac</u></p> <ul style="list-style-type: none"> Use lesser of Schedule E or lease agreement versus market rent as indicated on form 1000. If higher income is needed a written analysis for discrepancy and justification for use to qualify the borrower as stable and reasonably expected to continue must be provided.

Rental Income From the Security Property		
Does Borrower Have History of Receiving Rental Income From Property?	Documentation Requirements	Calculate Monthly Net Rental Income (or Loss)
No	<p>Purchase</p> <p>For a purchase transaction of an investment property the following must be met in order for the borrower to use rental income to qualify:</p> <ul style="list-style-type: none"> • Copy of the fully executed lease agreement • If the property is not currently rented, lease agreements are not required, and market rent supported by Form 1007/1000 or form 1025/72, as applicable, may be used to qualify the borrower; and • Meet the minimum reserve requirement based on investor type <p><u>Freddie Mac</u></p> <ul style="list-style-type: none"> • Borrower must own a Principal Residence to use rental income to qualify when purchasing a new rental property in the current calendar year • Rental income may only be used to offset the PITIA of the subject property and no positive rental income may be used to qualify unless the borrower has a minimum of one-year investment property management experience • Leases must be current with a minimum term of one year. If the lease is assigned from the seller and is in the automatically renewable month-to-month phase of an original one year term lease, then a month-to-month term is acceptable <p style="color: red;">See Appraisal Addendum requirements for investment and 2-4 unit properties-subject property for additional requirements</p>	<p>The gross rental income from the property is equal to the lesser of the market rent established by the appraiser or the current rent based on the existing lease agreement(s). Net rental income equals 75% of the gross rent; the remaining 25% of the gross rent is absorbed by vacancy losses and ongoing maintenance expenses.</p>
	<p>Refinance</p> <p>Leases can only be used if a property is not listed on Schedule E because it was acquired subsequent to filing the tax return.</p>	

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Rental Income From the Security Property		
Does Borrower Have History of Receiving Rental Income From Property?	Documentation Requirements	Calculate Monthly Net Rental Income (or Loss)
	See Appraisal Addendum requirements for investment and 2-4 unit properties-subject property for additional requirements	

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

Rental Income From Property Other Than the Security Property		
Does Borrower Have History of Receiving Rental Income From Property?	Documentation Requirements	Calculating Monthly Net Rental Income (or Loss)
Yes	<p>Obtain copies of the borrower's most recent year signed federal income tax returns and the related Schedule E, or a copy of the current lease agreement(s) (only if a property is not listed on Schedule E because it was acquired subsequent to filing the tax return).</p> <p>A signed lease may be used if the property was out of service during any period of the prior year due to renovations as supported by schedule E reflecting repair costs and reduced number of days in use. Documentation is required to ensure the expenses support a significant renovation to support time the property was out of service.</p> <p><u>Freddie Mac</u></p> <ul style="list-style-type: none"> • Form 1000 or 72 must be provided in order to support income from lease due to property being out of service during the prior year 	<p>Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns; or</p> <p>75% of the gross rent from the lease agreement, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses. if allowable</p>
No	<p>Obtain copies of current lease agreements (only if a property is not listed on Schedule E because it was acquired subsequent to filing the tax return).</p>	<p>Net rental income is 75% of the gross rent from the lease agreements, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses.</p>

Treatment of the Income (or Expense)

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

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

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

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

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

When Schedule E is used to calculate rental income, the full PITIA must be accounted for. Any listed depreciation, interest, taxes, insurance, or HOA expenses will be added back to the borrower's cash flow. Please refer to the Fannie Mae Cash Flow Analysis Form 1084 dated 10/2001 or the Freddie Mac Income Analysis Form 91 dated 4/2010.

When the borrower is using rental income to qualify for the mortgage the entire PITIA of the property must be considered when evaluating property cash flow regardless of the obligated party.

RESTRICTED STOCK (RS) AND RESTRICTED STOCK UNITS (RSU)

Employers increasingly include RS and RSU as a component of employee compensation. RS are grants of company shares which represent equity interest in the company. RSU are grants valued in terms of company shares that do not represent equity interest in the company. Both RS and RSU are subject to a restriction period during which recipients are not permitted access to granted shares until vesting requirements are met. Vesting requirements are based on varying criteria but the most common types are:

- Performance-based (e.g., a certain percentage of total granted shares vest based on individual or corporate performance), and
- Time-based (e.g., a certain percentage of total granted shares vest after a pre-determined period of employment)

DOCUMENTATION REQUIREMENTS

RS and RSU may be used to qualify the Borrower for the Mortgage, provided the following requirements have been met:

Conventional Underwriting Guidelines

Income Type	Stable Monthly Income Requirements	Documentation Requirements
<p>RS and RSU subject to performance-based vesting provisions</p>	<p><u>History of receipt:</u></p> <ul style="list-style-type: none"> • Two years, consecutive • To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their current employer, without restriction <p>Continuance: Must be likely to continue for at least the next three years. The underwriter is not required to obtain documentation to verify income continuance, absent any knowledge, information or documentation that the income is no longer being received or is likely to cease.</p>	<p><u>All of the following:</u></p> <ul style="list-style-type: none"> • YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU, W-2 forms for the most recent two calendar years and a 10-day prior to close verbal verification of employment. Income verification obtained through a third-party verification service provider is not permitted. <p><u>Or all of the following:</u></p> <ul style="list-style-type: none"> • Written verification of employment (form 1005) documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent two calendar years, and a 10-day prior to close verbal verification of employment. Income verification obtained through a third-party verification service provider is not permitted. <p>Additional documentation requirements applicable to all documentation levels:</p> <ul style="list-style-type: none"> • Evidence the stock is publicly traded • RS and/or RSU agreement • Most recent vesting schedule(s) detailing past and future vesting • Evidence of receipt of previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include: <ul style="list-style-type: none"> ○ Date(s) of the payout(s) <p>The number of vested shares or its cash equivalent distributed to the Borrower (pre-tax)</p>

CALCULATION

Subject	Requirement and Guidance
<p>RS and RSU subject to performance-based vesting provisions</p>	<p>Based on the form in which vested RS or RSU are distributed to the borrower (i.e., as shares or its cash equivalent), the seller must use the applicable method(s) below to calculate the monthly income:</p> <p>RS or RSU distributed as shares</p> <p>Multiply the 52-week average stock price as of the application received date by the total number of vested shares distributed (pre-tax) to the borrower in the past two years, then divide by 24.</p> <p>(e.g., if 200 vested shares were distributed (pre-tax) in the past two years and the 52-week average stock price as of the application received date is \$10, multiply 200 x \$10 then divide by 24= \$83.33 monthly income)</p> <p>RS or RSU distributed as cash equivalent Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24.</p> <p>Refer below for more information about fluctuating earnings</p>
<p>RS and RSU subject to time-based vesting provisions</p>	<p>Based on the form in which vested RS or RSU are distributed to the Borrower (i.e., as shares or its cash equivalent), the Seller must use the applicable method(s) below to calculate the monthly income:</p> <p>RS or RSU distributed as shares</p> <p>Multiply the 52-week average stock price as of the Application Received Date by the number of vested shares distributed (pre-tax) to the Borrower in the past year, then divide by 12.</p> <p>(e.g., if 50 vested shares were distributed (pre-tax) in the past year and the 52-week average stock price as of the Application Received Date is \$10, multiply 50 x \$10 then divide by 12 =\$41.67 monthly income)</p> <p>RS or RSU distributed as cash equivalent</p> <p>Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.</p> <p>Refer below for more information about fluctuating earnings.</p>

ANALYSIS OF INCOME FLUCTUATION AND STABILITY

The determination of stability for RS and RSU income used to qualify must include analysis of changes in the company's stock price as well as past and future distributions detailed in a vesting schedule. If the YTD earnings are consistent with the previous year(s) earnings or trending upward, then the underwriter must use the applicable calculation method(s) below to determine the monthly income. If the earnings are not consistent (i.e., the value of vested shares distributed decreases substantially year-over-year), additional analysis is required and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income.

ELIGIBLE ASSET

Stock with limitations on its accessibility (e.g., restricted stock which has not vested and been distributed to the recipient) is not eligible source of borrower funds and may not be used reserves and/or closing costs.

DEPARTURE OF CURRENT RESIDENCE

When converting a primary residence to an investment property we will use 75% of gross rental income as stated on the lease as evidence of rental income to offset the payment if the following conditions are met:

- The rental income must be documented with a copy of the fully executed lease agreement
- Meet the minimum reserve requirement based on investor and property type

Freddie Mac

- Rental income may only be used to offset the PITIA of the primary property and no positive rental income may be used to qualify unless the borrower has a minimum of one-year investment property management experience

RETIREMENT, GOVERNMENT, AND PENSION INCOME

Fannie Mae

Document regular and continued receipt of the income, as verified by

- Letters from the organizations providing the income,
- Copies of the retirement award letters,
- Copies of the signed federal income tax returns,
- IRS W-2 or 1099 forms, or
- Proof of current receipt

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. In addition,

- The borrower must have unrestricted access without penalty to the accounts; and
- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used determine the number of distributions remaining to account for the volatile nature of these assets.

Freddie Mac

Retirement income may be considered qualifying income provided the mortgage file contains evidence of the type of retirement income (e.g., pension, annuity, or other similar benefits), source,

Conventional Underwriting Guidelines

pre-determined payment amount, payment frequency and current receipt. A history of receipt is not required for the income to be considered stable. Documentation requirements for existing and established sources of retirement income:

- Document source, benefit type, payment frequency, and pre-determined payment amount with a benefit verification letter, award letter, 1099, or other equivalent documentation.
- Document current receipt with a bank statement, benefit verification letter, notice of award letter or other equivalent documentation.

If the retirement income is newly established, verification of current receipt is not required. Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency, and pre-determined payment amount with the benefit verification letter, notice of award letter or other equivalent documentation from the payer that provides and establishes these terms. The income must commence prior to or on the first Mortgage payment due date.

All retirement income must be likely to continue for at least the next three years.

Distributions from retirement accounts recognized by the IRS (e.g. 401(k), IRA) that are not subject to penalty (e.g. early withdrawal penalty) may be considered stable monthly qualifying income. Evidence of the income source, type, distribution frequency, distribution amount(s), current receipt (as applicable), and history of receipt (as applicable) must be documented. If distributions are being taken in accordance with certain IRS rules, such as the Required Minimum Distributions (RMD) rule (i.e. excise tax penalty applies if distributions are not taken), and evidence of current receipt of the required minimum distribution amount is obtained, history of receipt is not required for the income to be considered stable.

Due to the multiple variables inherent with distributions from retirement accounts including but not limited to, fixed and fluctuating income amounts, the history of receipt necessary to justify a stable monthly qualifying income amount may vary. This may include a range of history from zero to 24 months, depending upon the individual circumstances. As with all income, the underwriter must determine that the source and amount of the income are stable. Factors that the underwriter must consider when determining that the income used to qualify the borrower is stable, and when determining the history of receipt necessary to justify a stable monthly qualifying income amount include, but are not limited to the following:

- Frequency and regularity of the distributions
- Length of time the distributions have been taken and whether or not they establish a stable pattern of receipt over a given period of time. For example, consider whether or not the distributions are fixed amounts occurring with regular frequency or are fluctuating amounts occurring with or without regular frequency. For fixed amounts occurring with regular frequency, a lesser history of receipt may be needed in order to determine the amount and stability of the qualifying income than would be needed for fluctuating amounts. For fluctuating amounts, it may be necessary to obtain a longer history of receipt in order to determine the amount and stability of the qualifying income while taking into consideration whether or not the overall payments are similar when viewed year over year or with another similar measure, such as quarter over quarter.
- Rules governing distributions, e.g., IRS rules governing exceptions to early withdrawal penalties and Required Minimum Distributions (RMD), employer retirement plan rules, and designs governing scheduled distribution terms. Certain rules may provide support for the frequency and

regularity of receipt as well as continued receipt, thereby enabling a lesser amount of history to justify a stable monthly qualifying income amount.

Documentation requirements:

- Most recent retirement account statement(s), documentation from financial institution holding retirement account that verifies regularly scheduled distribution arrangements, 1099(s) and/or other equivalent documentation showing income source, type, distribution frequency, distribution amounts, and history of receipt, as applicable, and
- Bank statement(s) or other equivalent documentation evidencing current receipt (as applicable), and
- Evidence of sufficient assets to support the qualifying income.

If the retirement distributions are not scheduled monthly payments, e.g., annual, semi-annual, quarterly, the most recent distribution verified through a retirement account statement, 1099, and/or other equivalent documentation, as applicable, is sufficient in lieu of current receipt; however, verification of receipt of multiple distributions may be necessary to determine frequency of distributions, history of receipt and amount of stable monthly qualifying income. Sufficient assets remaining after closing must be documented to support continuance of the retirement account distributions as income for at least the next three years.

A written rationale explaining the analysis used to determine that qualifying income must be provided, regardless of the underwriting path. This can be documented on the Form 1008.

ROYALTY PAYMENTS

If the borrower needs to rely on income from royalty payments to qualify for the mortgage, the following documentation must be provided:

- Royalty contact, agreement, or statement confirming amount, frequency, and duration of the income; and
- Borrower's most recent signed federal income tax return, including the related IRS Form 1040, Schedule E.

Documented evidence showing that the borrower has received royalty payments for at least 12 months and will continue to receive them for at least three years after the date of the mortgage application is required in order to use the payments as qualifying income.

SEASONAL JOB INCOME

Seasonal, part-time, or second-job income, including seasonal unemployment compensation, can be considered as stable income if the borrower has worked the same job, or line of seasonal work, for the past two years and the borrower's employer indicates that there is a reasonable expectation that the borrower will be rehired for the next season. Examples of the borrowers who have seasonal jobs include outdoor laborers, landscapers, construction workers, etc., income tax preparers, supplemental department store personnel who work during the Christmas shopping period or another holiday period, etc. Seasonal unemployment compensation should not be used to qualify the borrower unless it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's federal income tax returns.

SELF-EMPLOYED BORROWERS

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

The following factors must be analyzed before approving a mortgage for a self-employed borrower:

- The stability of the borrower’s income,
- The location and nature of the borrower’s business,
- The demand for the product or service offered by the business,
- The financial strength of the business, and
- The ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage.

Income or Loss Reported on Schedule K-1 (IRS Forms 1065 or 1120S)

Business income reported on Schedule K-1 may be used to qualify only when the borrower has a documented history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify.

Caution must be used when including income that the borrower draws from the borrower’s partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower’s cash flow provided:

- The borrower can document ownership share (may use Schedule K-1), and
- The business has adequate liquidity (e.g. working capital) to support the withdrawal of earnings. A written evaluation of the business income must be retained in the mortgage file.

If...	Then...
The Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify,	No further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower’s cash flow.
The Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify,	The lender must confirm the following to include the income in the borrower’s cash flow: <ul style="list-style-type: none"> ○ The business has adequate liquidity (working capital) to support the withdrawal of earnings.
The borrower has a two-year history of receiving “guaranteed payments to the partner” from a partnership or an LLC,	These payments can be added to the borrower’s cash flow
Business tax returns are required,	The underwriter must consider the type of business structure and analyze the business returns

Documentation Requirements

The following describes the documentation that the borrower must provide. The borrower must select one item from each row.

- the most recent two years of signed individual federal income tax returns—IRS Form 1040; or
- the most recent one year of signed individual federal income tax returns, if permitted by AUS
- the most recent two years of IRS Schedule K-1; or

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- the most recent year IRS Schedule K-1, if permitted by AUS
- the most recent two years of business federal income tax returns (IRS Form 1065 or IRS Form 1120S), unless the requirements to waive business tax returns have been met; or
- the most recent one year of business federal income tax returns, if permitted by AUS

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It is required to document the number of years the business has been in business to determine the number of year returns required. For partnerships, S corporations and corporations, the federal income tax return(s) for the business must indicate the number of years that the business has been in existence. For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on the mortgage application.

- One year personal and business returns are required if the business has been operating for five or more years.
- Two years personal and business returns are required if the business is operating less than five years.
- A change in business structure (i.e. Schedule C to 1065) does not trigger newly self-employed.

ANALYZING PARTNERSHIP RETURNS FOR A PARTNERSHIP, LLC, AND S CORPORATION

Evaluating the Business Income for a Partnership and LLC

When the borrower has 25% or more ownership interest in the business and business tax returns are required, the underwriter must perform a business cash flow analysis and evaluate the overall financial position of the borrower's business to determine whether:

- Income is stable and consistent, and
- Sales and earnings trends are positive.

If the business does not meet these standards listed above, business income cannot be used to qualify the borrower.

Evaluating the business income for a S Corporation

When the borrower has 25% or more ownership interest in the business, the underwriter must perform a business cash flow analysis in order to evaluate the overall financial position of the business and confirm:

- The business income is stable and consistent, and
- Sales and earnings trends are positive.

If the business does not meet these standards listed above, business income cannot be used to qualify the borrower.

Borrower's Proportionate Share of Income or Loss for a Partnership and LLC

The borrower's proportionate share of income or loss is based on the borrower's partnership percentage of Ending Capital in the business as shown on the IRS Form 1065, Schedule K-1. Only the borrower's proportionate share of the business income or loss after making the adjustment to the business cash flow can be used when qualifying the borrower for the mortgage loan.

Borrower's Proportionate Share of Income or Loss for an S Corporation

The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if the lender obtains documentation verifying that

- The borrower has ownership of the income (Schedule K-1 may be used to document ownership share), and

Alternatively, the lender can obtain documentation verifying that:

- The business has adequate liquidity (e.g. working capital) to support the withdrawal of earnings. A written evaluation of the business income must be retained in the mortgage file.

EARNINGS FROM A CORPORATION (1120)

FANNIE MAE

Can only be taken into consideration if the borrower owns 100% of the business.

FREDDIE MAC

It is only required to document access to business income if the borrower is less than 100% owner of the business (i.e. 1120) and the income is not reporting on the borrower's personal tax returns.

ADJUSTMENTS TO BUSINESS CASH FLOW

Partnership, LLC and S Corporation

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring. The following items should be subtracted from the business cash flow:

- Meals and entertainment exclusion,
- Other reported income that is not consistent and recurring, and
- The total amount of obligations on mortgages or notes that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

Income from Partnerships, LLCs, Estates, and Trusts

Income from partnerships, LLCs, estates, or trusts can only be considered if the lender obtains documentation verifying that:

- The borrower has ownership of the income (Schedule K-1 may be used to document ownership share), and
- The income was actually distributed to the borrower.

Alternatively, the lender can obtain documentation verifying that:

- The borrower has access to the income through a partnership agreement, LLC operating agreement, or other documentation that the lender determines is appropriate, unless the

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- borrower(s) own 100% of the business in which case confirmation of access to the income is not required; and
- The business has adequate liquidity (e.g. working capital) to support the withdrawal of earnings. A written evaluation of the business income must be retained in the mortgage file.

Ownership in the Business <25%

For borrowers who have less than 25% ownership of a partnership, S corporation, or limited liability company (LLC), ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 may be used in qualifying the borrower provided:

- The borrower can document ownership share (may use Schedule K-1),
- The borrower can document access to the income, and
- The business has adequate liquidity (e.g. working capital) to support the withdrawal of earnings. A written evaluation of the business income must be retained in the mortgage file.

If...	Then...
The Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify,	No further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.
The Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify,	The lender must confirm the following to include the income in the borrower's cash flow: <ul style="list-style-type: none"> • The borrower can document access to the income (such as a partnership agreement or corporate resolution).; and • The business has adequate liquidity (working capital) to support the withdrawal of earnings.
The borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC	These payments can be added to the borrower's cash flow

An exception to the two-year requirement of receiving "guaranteed payments to the partner" is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the lender may rely upon the borrower's guaranteed compensation. This must be evidenced by the borrower's partnership agreement and further supported by evidence of current year-to-date income.

Documentation Requirements – For Schedule K-1 documentation requirements, the borrower must provide the most recent two years of signed individual federal income tax returns and the most recent two years of IRS Schedule K-1. If the K1 does not reflect a documented stable history of receiving cash distributions of income, two years business returns will be required to demonstrate the business has adequate liquidity (e.g. working capital) to support the withdrawal of earnings.

SOCIAL SECURITY INCOME

Social Security Supplemental Security Income (SSI) may be considered as qualifying income that has a reasonable expectation of continuance unless there is evidence that the benefits will not continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the insurance and/or benefit payment will not continue. Social Security benefits received

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

Documentation Requirements

Documentation Requirements based on business channel	
Delivery	Required Documentation when borrower is qualifying with social security income from retirement or disability from borrower's own record
Correspondent	<ul style="list-style-type: none"> Bank statement(s) to document current receipt; or SSI Award letter AND Executed SSA-3288 Consent for Release of Information
Wholesale/Retail	<ul style="list-style-type: none"> Bank statement(s) to document current receipt;
All Non-Conforming (e.g. Jumbo)	<ul style="list-style-type: none"> SSI Award Letter; AND Bank statement(s) to document current receipt

Additional Receipt of Income Documentation

Documentation Requirements for all channels		
Type of Social Security Benefit	Borrower is drawing Social Security benefits from own account/work record	Borrower is drawing Social Security benefits from another person's account/work record
Retirement	See Above	SSA Award Letter, Proof of current receipt, AND Three-year continuance (e.g., verification of beneficiary's age)
Disability		
Survivor Benefits	N/A	
Supplement Security Income (SSI)	SSA Award Letter, AND Bank statement(s) to document current receipt	N/A

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

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

Newly Established Freddie Mac Documentation Requirements

- Document source, benefit type, payment frequency, and pre-determined payment amount with a benefit verification letter, award letter, 1099, or other equivalent documentation.
- Document current receipt with a bank statement, benefit verification letter, notice of award letter or other equivalent documentation

If the SSI benefits income is newly established, verification of current receipt is not required; however, the finalized terms of the new income must be documented with the benefit verification letter, notice of award letter or other equivalent documentation from the payer that provides and establishes these terms. The terms that must be verified include, but are not limited to, the source, benefit type, effective date of income commencement, payment frequency, and pre-determined payment amount that will commence prior to or on the first mortgage payment due date.

Survivor and dependent benefit income may be considered qualifying income if the Mortgage file contains evidence of the type of survivor and/or dependent benefit income (e.g. Social Security Survivor benefits, Survivors' Department of Veterans Affairs (VA) benefits, other similar benefits), source, pre-determined payment amount, payment frequency, and current receipt. A history of receipt is not required for the income to be considered stable.

If the survivor and/or dependent benefit income is newly established, verification of current receipt is not required; however, the finalized terms of the new income must be documented with the benefit verification letter, notice of award letter or other equivalent documentation from the payer that provides and establishes these terms. The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency, and pre-determined payment amount that will commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date.

Documentation Requirements for existing and established survivor and/or dependent benefit income:

- Document source, benefit type, payment frequency, and pre-determined amount with a benefit verification letter, award letter, 1099, or other equivalent documentation.
- Document current receipt, with a bank statement, benefit verification letter, notice of award letter, or other equivalent documentation.

All survivor and dependent benefit income must be likely to continue for at least the next three years.

TAX EXEMPT INCOME

If income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the income may be grossed up by adding 25% of the nontaxable income to the borrower's income.

TEMPORARY LEAVES OF ABSENCE (INCLUDING MATERNITY LEAVES)

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

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

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

- For borrowers returning to their current employer prior to the first mortgage payment due date:
 - The lender may for qualifying income the borrower's gross monthly income amount that will be received upon the borrower's return to their current employer.
- For borrowers returning to their current employer after the first mortgage payment due date the lender must determine the income amount that will be received upon the borrower's return to their current employer. The lender must take into account any temporary reductions in income when determining qualifying income, as follows:
 - The lender may use for qualifying income the Borrower's gross monthly income amount being received during the temporary leave. In the event that the income has been

reduced or interrupted, the lender may use for qualifying income the monthly reduced amount (this amount may be zero) being received during the temporary leave combined with the partial or complete income supplement up to the amount of the income reduction.

- The total qualifying income must not exceed the gross monthly income that will be received upon the borrower's return to current employer.
- Assets that are required for the transaction, e.g., down payment, closing costs, financing costs, prepaids/escrow, and reserves, may not be considered as available assets to supplement the income.

Documentation Requirements

The following documents must be retained in the loan file:

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

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

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

TIP INCOME

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

In some cases, the full amount of the tip income earned by the borrower may not be reported by the employer on the **WVOE** (Form 1005), paystub, and W-2 form. However, the borrower may report additional tip income to the IRS using Form 4137, Social Security, and Medicare Tax on Unreported Tip Income when filing his or her tax returns. Fannie Mae will allow this tip income to be used in qualifying if the lender obtains the most recent two years of federal income tax returns with Form 4137.

TRUST INCOME

Trust income may be used as acceptable stable income, if the following documentation requirements are met:

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- Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments; and

- Verify that the trust income will continue for at least three years from the date of the mortgage application. Unless this income is received monthly, documentation of current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy.

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- Copy of the trust agreement; and
- Evidence of the amount, frequency, and duration of payments. A history of receipt is not required for the income to be considered stable; however, the trust income must be likely to continue for at least the next three years.

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

UNEMPLOYMENT BENEFITS

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

UNION WORKERS

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

- Paystubs for the current year, two years tax returns, and two years of W-2s, or
- A **WVOE (Form 1005)** from the Union for earnings from all employers during the current year and a W-2 from the prior year.

Fannie Mae

When verifying employment for borrowers who work in occupations that result in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union that facilitates the borrower's placement in each assignment can provide the following:

- Verbal verification of employment for a union member who is currently employed
- An executed employment offer of contract for future employment for a union member who is not scheduled to begin employment until after the loan closes.

VA BENEFITS

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

VARIABLE INCOME

To demonstrate the likelihood that a consistent level of income will continue to be received for borrowers with less predictable sources of income, the lender must obtain information about prior earnings. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen.

History of Receipt

Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history.

Frequency of Payment

The lender must determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below).

Examples:

- If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three months produces a much higher, inaccurate monthly average.
- If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical (transportation employees who operate snow plows in winter, package delivery service workers who work longer hours through the holidays). The lender must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.

INCOME TRENDING

After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).

- If the trend in the amount of income is stable or increasing, the income amount should be averaged.
- If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.

- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.

EMPLOYMENT VERIFICATION

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

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

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

OPTIONAL DATA FIELDS ON VERIFICATION OF EMPLOYMENT [FORM 1005 AND 1005(S)]

The **Written** Verification of Employment (**Form 1005** and **Form 1005(S)**) may be used to document income for a salaried or commissioned borrower in lieu of a paystub and W-2 forms. However, some of the data requested by the form is not generally provided by employers, nor is it available on paystubs and W-2s. As a result, the Guide now specifically lists which data fields on the form are optional and need not be completed. The information on the Form 1005 or Form 1005(S) must be legible. The following fields on the form are optional:

Field #	Title of Optional Field
11	Probability of continued employment
14	If overtime or bonus is applicable, is its continuance likely?
16	Date of applicant's next pay increase
17	Projected amount of next pay increase
18	Date of applicant's last pay increase
19	Amount of last pay increase
24	Reason for leaving (Part III – Verification of Previous Employment)

ALTERNATIVE DOCUMENTATION

Alternative documentation may include:

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

- Total current and year-to-date
- Employer's name
- If the borrower receives handwritten or non-computer generated paystubs, a **WVOE (Form 1005)** and a 4506-T are required prior to closing
- Telephone confirmation from the borrower's employer from the Human Resources or Personnel Department, or if the company doesn't have such a department, from the borrower's supervisor. The processor's certification must be for all employers for the previous two years employment.

When supplied income documentation (paystub, W-2s, and/or **WVOE (Form 1005)**) shows "rounded" earnings, we may require 1040s to support the income figures provided.

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

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

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

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

The borrower must explain any employment gaps that extend beyond 1-month.

USE OF IRS W-2 TRANSCRIPTS IN LIEU OF W-2S

When lenders verify employment income for borrower's whose income is used to qualify for the mortgage loan, borrower-provided paystubs, and IRS W-2 forms are one option that can be utilized to document the income. In lieu of W-2 forms, other documentation options are a **WVOE (Form 1005)** or the final year-to-date paystub. Fannie Mae will also now permit an IRS "Wage and Income Transcript" (W-2 transcript) in lieu of the actual W-2 forms.

4506-T REQUIREMENTS

A signed, executed 4506-T is to be obtained at time of underwriting and at closing for all loans. The borrower must sign an additional form 4506-T for each partnership or corporation, prior to closing and it must state such on the form (i.e. John Smith, owner of XYZ Corporation or Partnership). IRS form 4506-T

is only valid for a specific limited time. Please refer to [Flagstar Bank Loan Requirements](#), for execution requirements. For detailed instructions on how to properly complete a 4506-T please reference the [Preparing Your 4506-T Guide](#) by Equifax.

TAX TRANSCRIPTS

Applicable Tax transcripts will be required for the following income types:

- Self-Employed
- Rental Income documented on Schedule E
- Employed by family
- Fixed income types such as disability, social security, retirement, child support, alimony, etc., when the 1040's are obtained in lieu of alternative documentation e.g., award letter, 1099, bank statements, etc.
- Hand written income documentation
- Non-Agency programs such as Jumbo Loans, Helocs and Second Mortgage regardless of income type

When the tax transcripts reflect Schedule C, K-1s, and/or Schedule E - Supplemental Income and Loss (such as from rental income), the file must be documented according to the following:

- When the tax transcripts reflect self-employed income and it is not needed to qualify, a copy of the tax returns, and schedules will only be required if the income is from Schedule E.
 - It is not required to account for self-employment loss when the borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include salary and retirement income.

When tax returns are used to document income, each tax return must be signed by the borrower unless the file contains the IRS transcripts for each tax return used.

Review the tables below to determine the transcript documentation requirements.

Income Type	Transcripts Require
Self-Employed	1040
Rental Income Documented on Schedule E	1040
Employed by Family	1040
Fixed Income documented with tax returns (1040's)	1040
Fixed Income documented with award letter, 1099, bank statement, etc.	None
W2 Wage Earner (unless handwritten income documentation then the W2 transcript(s) is required.	None
Other Income documented with tax returns (1040's) - e.g. Dividend & Interest, Note Receivable Income, etc.	1040

DESCRIPTION OF IRS FORMS

- 1040: U.S. Individual Income Tax Return (check box 6a on form 4506-T)
- 1065: U.S. Return of Partnership Income (check box 6a on form 4506-T)
- 1120: U.S. Corporation Income Tax Return (also 1120-L and 1120-S) (check box 6a on form 4506-T)



Conventional Underwriting Guidelines

- W-2: Wage and Tax Statement (check box 8 on form 4506-T)
- 1099: Misc. Income (such as dividend interest, government payment, etc.) (check box 8 on form 4506-T)

MOST RECENT YEAR TAX RETURN REQUIREMENTS

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

If today's date is...	Then the Most recent Year's Tax Return would be...
February 15, 2019	2017
April 15, 2019	2018
December 15, 2019	2018

The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage loan.

Application Date	Disbursement Date	Documentation Required
October 15, [current year minus 1] to April 14, current year	October 15 [current year minus 1] to April 14, current year	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
	April 14, current year to June 30, current year	If the borrower has not filed his or her return with the IRS for the previous year the borrower must provide the tax returns for the prior two years (2016 and 2017). Tax Transcripts for 2018 to show - "No Record on file" Completed and signed - 4506-T for tax years provided by the borrower.
	July 1, current year to October 14, current year	<ul style="list-style-type: none"> • The most recent year's tax return, or all of the following: • A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS, • The underwriter must review the total tax liability reported on IRS Form 4868 and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the lender to require
April 15, current year to October 14, current year	April 14, current year to December 31, current year	

Conventional Underwriting Guidelines

Application Date	Disbursement Date	Documentation Required
		the current returns in order to proceed. <ul style="list-style-type: none"> • Tax Transcripts confirming “No Transcripts Available” for the applicable tax year, and • Returns for the prior two years
	January 1, [current year plus 1] to April 14, [current year plus 1]	The most recent year’s tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.

Exception:

- For business tax returns, if the borrower’s business uses a fiscal year (a year ending on the last day of any month except December), the lender may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.

If income is less in 2018, than in 2017 we will use 2018 figures regardless of the tax transcripts. If the income from 2018 is needed to qualify, the 2018 tax transcripts will be required.

FREDDIE MAC

When the borrower is employed by the property seller, real estate broker or other interested party to the transaction, the borrower must provide his/her most recent federal income tax returns.

FANNIE MAE

When the borrower is employed by an interested party to the property sale or purchase, the borrower must provide his/her most recent two years federal income tax returns.

VICTIMS OF TAXPAYER IDENTIFICATION THEFT

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

- Proof of identification theft as evidenced by one of the following:
 - Proof of identification theft was reported to and received by the IRS (IRS form 14039)
 - Copy of notification from the IRS alerting the taxpayer to possible identification theft
- Additionally, provide each of the following secondary documents (as applicable) to validate the reported income on the tax returns in question:
 - W-2 or 1099 transcripts which match the W-2 or 1099 income shown on the 1040s
 - 1099 mortgage interest should match the reported interest on Schedule A or Schedule E
 - 1099-G unemployment should match reported unemployment
 - 1099-DIV and 1099-INT should match reported dividend and interest
 - Validation of prior tax year(s) income (income for current year must be in line with prior year(s))

Conventional Underwriting Guidelines

The IRS has announced that criminals used taxpayer-specific data acquired from non-IRS sources to gain unauthorized access to information on approximately 100,000 tax accounts through the IRS "Get Transcript" application. Due to this breach, Flagstar Bank is unable to obtain the full tax transcripts for taxpayers that may have been impacted. The Reject Code 10 is being used by the IRS "Income Verification Express Service" (IVES) application when there is possible identity theft on the taxpayer's account. In cases where the IRS will not provide the transcripts to the vendor, the following documentation will be acceptable in lieu of the tax transcripts.

TAX RETURNS ARE REQUIRED TO DOCUMENT INCOME

- Tax Transcripts indicating, due to limitations, the IRS cannot process the request, taxpayer will receive a mailed notice. If any questions, please call the IRS Customer Service at 800-829-1040; Note: A "no record found" or "data mismatch" is not acceptable; and
- Copy of the signed tax returns (follow AUS for the number of years to obtain); and
- Bank statement or copy of check to evidence that the tax payment made or refund received for each tax year matches the amount on the 1040; and
- Signed 4506-T for each required tax year.

W2 AND/OR 1099'S ARE REQUIRED TO DOCUMENT INCOME:

- Tax Transcripts indicating, due to limitations, the IRS cannot process the request, taxpayer will receive a mailed notice. If any questions, please call the IRS Customer Service at 800-829-1040; Note: A "no record found" or "data mismatch" is not acceptable; and
- Copy of all W2's (follow AUS for the number of years to obtain); and one of the following
 - IRS Provided Transcripts mailed to the borrower and uploaded to Paperless File Manager, or
 - Year End Paystub for each required with Year-to-Date earnings in line with W2's, or
 - Fully Executed Verification of Employment completed by employer with Year End Figures in line with W2(s).

VERBAL VOE REQUIREMENTS FOR HOURLY, SALARY, AND COMMISSION INCOME

- The broker/correspondent must independently obtain a phone number, and if possible, an address for the borrower's employee. This can be accomplished by using a telephone book, the internet or directory assistance, or by contacting the applicable licensing bureau.
- The broker/correspondent must contact the employer, verbally or in writing, and confirm the borrower's current employment status within 10 days prior to the closing date. Alternatively, the VVOE may be obtained after closing up to the time of funding/purchase of the loan. If the VVOE cannot be obtained prior to funding/purchase, the loan is ineligible for delivery to Flagstar Bank.
- If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number. The written documentation should also include the name and title of the person who performed the verification for the broker/correspondent.

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

Because third party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was not more than 35 days old as of the note date.

VERBAL VERIFICATION OF EMPLOYMENT FOR SELF-EMPLOYED

The existence of the borrower's business must be verified from a third party source. Acceptable third party sources include the following:

- CPA, regulatory agency, or the applicable licensing bureau, if possible, or
- By verifying a phone listing and address for the borrower's business using the internet or directory assistance.
- The existence of the business must be documented within 120 days prior to the note date. Alternatively, the VVOE may be obtained after closing up to the time of funding/purchase of the loan. If the VVOE cannot be obtained prior to funding/purchase, the loan is ineligible for delivery to Flagstar Bank.

PROPERTY AND APPRAISAL

ACCESSORY UNITS

FANNIE MAE

Fannie Mae will purchase a one-unit property with an accessory dwelling unit. An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is a one-unit
- The property contains only one accessory unit, multiple accessory units are not permitted
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.

If it is determined that the property contains an accessory dwelling unit that does not comply with zoning, the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal must report that the improvements represent a use that does not comply with zoning.
- The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same non-compliant zoning use.

FREDDIE MAC

Freddie Mac will purchase a mortgage secured by a one-unit detached property that may have an incidental accessory-unit that is incidental to the overall value and appearance of the subject property.

Conventional Underwriting Guidelines

Examples of such properties include a dwelling with a unit above a detached garage, a dwelling with a guest apartment, or a detached dwelling in a Planned Unit Development with a basement-unit. The appraiser must describe the accessory-unit and analyze any effect on the value or marketability of the subject property that includes a second-unit that is incidental to the overall value and appearance of the subject property. Commercial use is not allowed.

Considerations that may require the property to be appraised (Form 1025/72) and treated as multi-unit properties include:

- Zoning
- Size of the accessory-unit relative to the main structure
- The property contains only one accessory unit, multiple accessory units are not permitted
- Separate mailing address
- Separate metering
- Separate entrance and exit
- Rent collection
- Multiple bedrooms and living spaces

ADDITIONS WITHOUT PERMITS – FANNIE MAE

If the appraiser identifies an addition that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

ADDRESS DETERMINATION

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

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

For condominiums and Planned Unit Developments that have a unique address, i.e., street number is different for each unit), the unit number does not need to be included on the closing documents (e.g. note, mortgage, etc., if the unit number is not part of the appraisal or purchase agreement and is referenced in the legal description. If the unit number is part of the appraisal or purchase agreement and is referenced in the legal description, the unit number must then be included on the closing documents.

APPRAISALS

All loans submitted to Flagstar Bank require an interior and exterior inspection regardless of AUS requirements unless an Appraisal Waiver Automated Collateral Evaluation is utilized. Appraiser waivers are not eligible in certain circumstances. See the Appraisal Waiver and Automated Collateral Evaluation sections for additional information. In addition, if a purchase transaction is the result of the sale of an REO property or the last transaction on the property being purchased was a foreclosure, an appraisal based on an interior and exterior property inspection reported on Form 1004 is required.

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

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- Uniform Residential Appraisal Report (Fannie Mae form 1004)
- Individual Condominium Unit Appraisal Report (Fannie Mae form 1073)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae form 1075). Flagstar Bank does not accept Form 1075 reports.
- Exterior-Only Inspection Residential Appraisal Report (Fannie Mae form 2005). Flagstar Bank does not accept Form 2055 reports.

All appraisal reports must include photographs of the kitchen, main living area, and all bathrooms. All appraisals are subject to Fannie Mae/Freddie Mac and USPAP guidelines.

Residential appraisal reports must be dated no more than 120 calendar days from the note date for both existing and new construction. If the appraisal is greater than 120 calendar days, but no more than 12 months, and the loan has not closed, please see below for requirements.

- For loans targeted to Fannie Mae, the appraiser must perform an update on form 1004D, which includes:
 - Inspection of the exterior of the property, and
 - Review of the current market data to determine whether the property has declined in value since the date of the original appraisal. If the appraiser indicates the property value has declined, a new appraisal will be required
- For loans targeted to Freddie Mac, one of the following is required:
 - An appraisal update reported on Form 442, Appraisal Update, and/or Completion Report. If the appraiser indicates the property value has declined, a new appraisal will be required, or
 - A new appraisal based on an exterior-only inspection and reported on the appropriate Freddie Mac form based on the property type. If the appraiser indicates the property value has declined, a new appraisal will be required, or
 - A new appraisal based on an interior and exterior inspection and reported on the appropriate Freddie Mac form based on the property type.
- For both Fannie Mae and Freddie Mac, if the original appraisal is more than 12 months, a full new appraisal report will be required.

The appraiser who performed the original appraisal should perform the appraisal update. However, another appraiser can perform the appraisal update.

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

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

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



Conventional Underwriting Guidelines

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

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

APPRAISAL ADDENDUM REQUIREMENTS FOR INVESTMENT AND 2-4 UNIT PROPERTIES – SUBJECT PROPERTY

In addition to the appropriate appraisal form, the following appraisal addendums are required for investment and 2 to 4-units when rental income is used to qualify the borrower for the mortgage loan:

SUBJECT PROPERTY		
Property Type	Occupancy	Appraisal Form # Required
1-Unit	Investment	Fannie Mae form 1007/Freddie Mac form 1000
2-4 Unit	Primary or Investment	Fannie Mae form 1025/Freddie Mac form 72 includes the Comparable Rent Schedule

REPORT REQUIREMENTS

Appraisers must give special attention to the valuation of the one-to-four family dwellings intended for or currently used as, rental properties. For 2 to 4-unit properties, the appraiser must use the Small Residential Income Property Appraisal report. Fannie Mae form 1025/Freddie Mac form 72 (rev. 3/2005). The income approach would be given equal consideration with the market approach in the appraiser's final value reconciliation. The appraisal must include:

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

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

Conventional Underwriting Guidelines

appraiser users sales of comparable property that are located outside of the subject neighborhood, he or she must include and explanation with the analysis.

Transactions with realtor commission fees exceeding 7% must be approved by management.

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

COMPARABLES

The appraisal should contain a minimum of two conventional comparable sales, preferably three. Land contract comparables are unacceptable. Generally the appraiser should use comparable sales that have been closed within the 12 months preceding the effective date of the subject property appraisal. More specifically, comparables should have closed within the average marketing time for the area as indicated by the appraiser. However, the appraiser may use older comparable sales as additional supporting data if he or she believes that it is appropriate. The appraiser must comment on the reasons for using any comparable sales that are more than six month old and/or exceeds the marketing time for the area. Each comparable should be similar to and located near the subject property. For properties located in a declining market, the appraiser should provide comparables dated within three to six months.

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

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

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

Conventional Underwriting Guidelines

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

REQUIREMENTS FOR NEW (OR RECENTLY CONVERTED) CONDOS, SUBDIVISIONS, OR PUDS

Fannie Mae

If the subject property is located in a new (or recently converted) condominium, subdivision, or PUD, then it must be compared to other properties in the neighborhood as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. The appraiser must use:

- One comparable sale from the subject subdivision or project,
- One comparable sale from outside the subject subdivision or project, and
- The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property

Two of these sales must be verified from reliable data sources, other than the builder. Sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision, project provided the developer, or builder of the subject property is not involved in the transactions.

To meet the requirement that the appraiser utilize one comparable sale from inside the subject subdivision or project, the appraiser may need to rely solely on the builder of the property he or she is appraising, as this data may not yet be available through typical data sources (for example, public records, or multiple listing services). In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the Closing Disclosure from the builder's file.

As a reminder, when providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable Closing Disclosure and indicate on the appraisal report that the Closing Disclosure was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale.

Two pending sales may be provided in lieu of one closed sale (as required above) in the subject subdivision or project in the event closed sales are not yet available. When this flexibility is used, the appraiser must also provide at least three closed comparable sales from outside the subject subdivision or project.

Freddie Mac

To demonstrate the marketability and develop an opinion of market value for units in new subdivisions, units in new PUDs or units in recently converted or New Condominium Projects, the appraiser must comply with the following requirements:

- One comparable sale must be from inside the subject subdivision or project, when available. Additionally:
 - The comparable sale from inside the subject subdivision or project can be a sale by the builder or developer of the subject property

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- If there are no closed comparable sales from inside the subject subdivision or project, contract sales may be used from inside the subject subdivision or project to satisfy this requirement. However, the use of contract sales must be in addition to the three actual closed sales obtained from outside the subject subdivision or project.
- In the event the subject subdivision or project is so new that a closed sale or a contract sale is not available, comparable sales from outside the subject subdivision or project may be used. However, the appraiser must comment on the marketability of the new subdivision or project and justify and support the use of the comparable sales from outside the new subdivision or project.

REQUIREMENTS FOR ESTABLISHED CONDOS, SUBDIVISIONS, OR PUDS

If the subject property is located in an established condominium, subdivision, or PUD, the appraiser should use comparable sales from within the subject subdivision or project.

NEIGHBORHOOD

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

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

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

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

COMMUNITY-OWNED OR PRIVATELY MAINTAINED STREETS

Fannie Mae

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

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

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

Freddie Mac

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

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

DISCLOSURE OF INFORMATION TO APPRAISERS

Fannie Mae

If the contract is amended after the effective date of the appraisal in a way that does not affect the description of the property, then it is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:

- Sale price
- Transaction terms
- Financing concessions
- Seller-paid closing costs
- Names or initials
- Closing date, and
- Correction of minor clerical errors such as misspellings

Disclosure of changes to financing information, such as loan fees and charges, and subordinate financing provided by interested parties only must be provided to the appraiser for purchase transactions.

Freddie Mac

The following information on the subject property, as applicable, must be provided to the appraiser in conjunction with all appraisal requests:

Conventional Underwriting Guidelines

- The complete sales contract (A sales contract on a new home should state the base price of the house and itemize each option.)
- All financing terms, financing and sales concessions granted by anyone associated with transaction, and any gifts, buydowns and down payment assistance provided by anyone on behalf of the Borrowers, whether for purchase or refinance transactions
- Income and expense statements, property leases and a list of non-realty items that are included in the transaction, and
- Any other information that the Seller knows that may affect the value or marketability of the property. This information includes, but is not limited to, an affiliation between the property seller and purchaser, proposed changes to the use of the property, and the presence of any Contaminated Site or Hazardous Substance affecting the property or the neighborhood in which the property is located.
 - It is not required to provide the appraiser with an updated sales contract unless the updated terms impact the physical description or condition of the property. Changes to the sales contract that are not required to be provided to the appraiser include, but are not limited to:
 - Changes to the transaction terms such as sales price, financing or sale concessions, and
 - Date revisions, corrections to typographical errors, etc.

If the updates will impact the physical description or condition of the property, the appraisal must be updated.

EFFECTIVE AGE

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

ZONING

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

Properties that are subject to coastal tideland, wetlands or setback laws and/or regulations that prevent the rebuilding of the property improvements if they are damaged or destroyed are ineligible.

WELL AND SEPTIC

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

SITE/VIEW ADJUSTMENTS

The appraisal must include the actual size of the site and not a hypothetical portion of the site. For example, the appraiser may not appraise only 5 acres of an un-subdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel. For properties with larger than normal lots or considerable acreage that do not have comparables with the same type of lots or acreage, any

excessive plus adjustments will be subtracted from the final value of the comparable and the new adjusted value will be used for loan-to-value calculations.

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

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

SOLAR PANELS – BORROWER OWNED

If the borrower is the owner of the solar panels, standard eligibility requirements apply for example, appraisal, insurance, and title.

SOLAR PANELS LEASED FROM OR OWNED BY A THIRD PARTY

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply whether to the original agreement or as subsequently amended:

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
 - Provide delivery of a specific amount of energy at a fixed payment during a given period, and
 - Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.

Payments under power purchase agreements where the payment is calculated solely based on the energy produced and used may be excluded from the DTI ratio.

- The lease or a power purchase agreement must indicate that:
 - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); and
 - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the

owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and

- In the event of foreclosure, the lender or assignee has the discretion to
 - Terminate the lease/agreement and require the third-party owner to remove the equipment;
 - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
 - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

INDEPENDENT FEE APPRAISERS

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

APPRAISAL WAIVER – FANNIE MAE

The following transactions are eligible for an Appraisal Waiver:

- One-unit properties, including condominiums
- Limited cash-out refinance transactions:
 - principal residences and second homes up to 90% LTV/CLTV
 - investment properties up to 75% LTV/CLTV
- Cash-out refinance transactions:
 - principal residences up to 70% LTV/CLTV
 - second homes and investment properties up to 60% LTV/CLTV
- Purchase transactions:
 - principal residences and second homes up to 80% LTV/CLTV
- Loan casefiles that receive an Approve/Eligible recommendation

The following transactions are not eligible for an Appraisal Waiver:

- The subject is an REO property
- The last transaction on the subject property was a foreclosure
- Properties located in a disaster-impacted area
- Properties located in New York
- Construction or Construction-to-perm transactions
- Two- to four-unit properties

- Texas 50(a)(6) loans
- The value of the subject property provided to DU is \$1,000,000 or greater
- HomeStyle mortgage products (Renovation and Energy)
- Leasehold properties, Community Land Trust, or other Properties with Resale Restrictions
- Cooperative Units and Manufactured Homes
- DU loan casefiles that receive an ineligible recommendation
- Loans for which the mortgage insurance provider requires an appraisal
- Loans for which rental income from the subject property is used to qualify
- Mortgages for which an appraisal has been obtained in connection with the mortgage
- Transactions using a gift of equity
- The lender is required by law to obtain an appraisal. This does not apply for loans on which Flagstar Bank, FSB is the named lender. Flagstar will expect that any correspondent that proceeds to close a transaction with an appraisal waiver represents and warrants the use of the alternative is compliant with the correspondent's state legal obligations.

Underwriter to select PIW for appraisal type

RURAL HIGH-NEEDS APPRAISAL WAIVER – FANNIE MAE

In selected rural high-needs areas, Fannie Mae may offer appraisal waivers through DU for certain transactions. This appraisal waiver may be combined with other loan products, such as HomeReady.

The following transaction or eligible for the rural high-needs appraisal waiver:

- loan casefiles that receive an Approve/Eligible recommendation;
- purchase transactions;
- one-unit principal residence properties (excluding manufactured homes);
- borrowers with income at or below 100% of the area median income; and
- LTV ratios up to 97% and CLTV ratios up to 105% with a Community Seconds.

The following are ineligible for the rural high-needs appraisal waiver:

- cash-out or limited cash-out refinances;
- second homes and investment properties; and
- all other transactions that are ineligible for an appraisal waiver

These following requirements must be met in order to exercise the rural high-needs appraisal waiver:

- Obtain a home inspection to determine the property condition. Must use a professional inspector that meets the state license and education requirements for those states that regulate inspectors.
 - In states that do not have inspector licenses, inspectors that are professionally accredited members in good standing of a nationally recognized property inspection organization must be used. The national organization must require education, testing, and adherence to a code of
 - ethics and to standards of practice.
- review the inspection report to verify the property condition. The content of the inspection report must be sufficient for the lender to determine whether the property is safe, sound, and

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structurally secure. Any issues that compromise safety, soundness, or structural integrity must be repaired before loan delivery.

- obtain an affidavit signed by the borrower(s) confirming that they received a copy of the property inspection report, read the report, and were notified of any lender-required repairs.
- confirm that the purchase contract contains an inspection contingency that offers that borrower(s) enough time to cancel the contract without penalty if they so choose, should the inspection reveal an issue with the property
- confirm that the inspector has liability insurance
- represent and warrant that the property is safe, sound, and structurally secure and that the property is not in C6 condition

APPRAISAL COLLATERAL EVALUATION – FREDDIE MAC

The following transactions are eligible for An Appraisal Collateral Evaluation:

- LPA Accept risk class
- Single Family 1-unit property
- Condominium
- Primary resident or second home
- Purchase or rate and term with LTV/TLTV \leq 80%

The following transactions are not eligible for An Appraisal Collateral Evaluation:

- Mortgages for which an appraisal has been obtained in connection with the mortgage
- LPA caution risk class
- Cash-out refinances
- Investment properties
- Mortgages secured by a manufactured home or leasehold estate
- Two- to four-unit properties
- Mortgages secured by Mortgaged Premises subject to resale restrictions
- Freddie Mac Relief Refinance Mortgages – Same Servicer or Open Access
- Texas 50(a)(6) loans
- Properties located in New York
- Non-arm's length transactions
- Purchase of REO property (identified in sales contract)
- Mortgages with an estimate value or purchase price greater than \$1,000,000
- Mortgages with Freddie Mac Settlement Dates more than 120 days from the note date
- The property is located in an area recently impacted by a disaster
- An appraisal is required by law or regulation
- The underwriter is aware the property is located in a contaminated site or hazardous substance exists affecting the property or the neighborhood in which the property is located
- Adverse physical property conditions that are apparent based on the review of the sales contract, property inspection, disclosure from the borrower, etc.

Underwriter to select PIA for appraisal type

USE OF AN APPRAISAL FOR A SUBSEQUENT TRANSACTION

The use of an origination appraisal for a subsequent transaction is acceptable if the following requirements are met:

- The subsequent transaction may only be a Limited Cash-Out Refinance
- The appraisal report must not be more than 12 months old on the note date of the subsequent transaction. If the appraisal report is greater than 4 months old on the date of the note and mortgage, then an appraisal update is required. Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update, must be met.
- The property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction

PROPERTIES AFFECTED BY A DISASTER – FANNIE MAE

Property Eligibility Requirements

Before delivery of a mortgage loan to Fannie Mae where the property may have been damaged by a disaster, the lender must take prudent and reasonable actions to determine whether the condition of the property may have materially changed. The lender is responsible for determining if an inspection of the property and/or new appraisal is necessary to support this warranty. If a property is located in a condo or co-op project, both the condition of the unit and the condition of the building in which the unit is located must be assessed. The following criteria must be used to determine if the mortgage loans is eligible for delivery to Fannie Mae:

- If the property has been damaged and the damage does not affect the safety, soundness, or structural integrity of the property and the repair items are covered by insurance, the lender may deliver the mortgage to Fannie Mae. In these circumstances, the lender must obtain documentation of the professional estimates of the repair costs and must ensure that sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs.
- If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired before the mortgage loan is delivered to Fannie Mae.

DU is updated periodically to incorporate ZIP codes included in FEMA-Declared Disaster Areas eligible for Individual Assistance. Fannie Mae may also add areas impacted by other disasters or emergencies at its discretion. Properties in those ZIP codes are excluded from consideration for a new appraisal waiver offer.

Appraisal Waiver Policy for Disasters

Fannie Mae is now providing flexibilities to allow an appraisal waiver on loan in process at the time of a disaster. The following requirements must be met in order to exercise the appraisal waiver.

- If the property was damaged and the damage does not affect the safety, soundness, or structural integrity of the property and the repair items are covered by insurance, the lender
 - must obtain documentation of the professional estimates of the repair costs, and
 - ensure that sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs.

- If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired before the loan is delivered to Fannie Mae.

Appraisal Waiver Offers Following a Disaster

After Fannie Mae has received an acceptable appraisal that was performed following a disaster, that appraisal can serve as the basis for a future appraisal waiver. DU may issue appraisal waiver offers in disaster areas as soon as 120 days following a disaster. The appraisal waiver may be exercised but must meet the standard appraisal waiver guidelines.

APPRAISAL PORTABILITY

ACCEPTING AN APPRAISAL FROM ANOTHER LENDER

All requests to accept an appraisal that was ordered from another lender should be sent to Appraisal.Review@Flagstar.com.

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

Under no circumstances, will Flagstar accept an appraisal transferred or uploaded to Flagstar by the loan originator or any employee of the originating lender. The appraiser must not appear on Flagstar's ineligible appraiser list.

TRANSFER APPRAISAL FROM FLAGSTAR TO ANOTHER LENDER

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

When a customer requests that an appraisal ordered by Flagstar be transferred to another lender there may be a fee associated to the transfer depending on if it has been locked and if it has been submitted to underwriting. See *Comprehensive List of Fees – Broker*, [Doc #4618](#) or *Comprehensive List of Fees- Correspondent*, [Doc#4619](#) for a complete breakdown of fees. Flagstar will not retype an appraisal into another lender's name. The appraisal transfer letter consists of a summary documenting the appraisal's compliance with Appraiser Independence guidelines.

MULTIPLE APPRAISALS FOR SUBJECT PROPERTY

If more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must

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- adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value,
- document the reasons for relying on the appraisal, and
- submit the appraisal selected by the lender through the UCDP prior to delivery.

CONDOMINIUMS

All condominium projects must be reviewed and approved by Flagstar's Condo Review Department, except for Limited/Streamline reviews that are submitted via the Delegated Channel. Flagstar Bank utilizes Fannie Mae's Condominium Project Management (CPM) system for all project approvals.

FANNIE MAE LIMITED REVIEW AND FREDDIE MAC STREAMLINED REVIEW REQUIREMENTS

Under the limited review option, the project or legal phase must be completed and the appraisal must not indicate any characteristics that would indicate the project is ineligible. New projects (Fannie Mae Type R, Freddie Mac new projects) are not eligible for limited review. To be eligible for a limited or streamline review, 90% of the units must be sold and control of the HOA must be turned over to the unit owners. Projects not meeting any project review guidelines are not eligible for Limited or Streamlined Review.

For certain Fannie Mae-owned loans that are being refinanced as a limited cash-out refinance, the project review may be waived if the following has been met:

- It has been verified Fannie Mae owns the current loan
- The loan-to-value ratio is no higher than 80% (CLTV or HCLTV ratios may be higher);
- The project has the required project-related property and flood insurance coverage; and
- The project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project.

This waiver does not apply to co-op projects. The loan must be delivered with Project Type Code "V" and any applicable SFCs that apply.

For certain Freddie Mac-owned loans that are being refinanced as a limited cash-out refinance, the project review may be waived if the following has been met:

- It has been verified Freddie Mac owns the current loan;
- Maximum 80% LTV/TLTV/HTLTV ratios;
- The project is not a Condominium Hotel, houseboat project, timeshare project or project with segmented ownership;
- The project complies with all applicable property insurance requirements;
- The project complies with all liability and fidelity bond, if applicable; and
- The project complies with all title insurance requirements.

DOCUMENTATION REQUIREMENTS

Limited/Streamline Review Uniform Condominium Questionnaire, [Doc. #3281](#) or similar form is required. A condominium questionnaire will not be required if the condominium is on the Flagstar approved list.

DOCUMENTATION RETENTION

Lenders must retain all of the project documentation needed to demonstrate that the project meets Fannie Mae's eligibility requirements, including any documentation the lender relied upon to enter information into CPM. This documentation must be retained, and made available upon request, as long as lenders originate mortgages from the project, and until all mortgages sold to Fannie Mae have been liquidated.

EXPIRATION FOR PROJECT REVIEWS

Fannie Mae

Project Review Process Employed	Expiration of Project Review
Limited Review	Must have been completed within one year prior to the note date
Full Review (with or without CPM) for Established Projects	
Full review for New Projects	Must have been completed within 180 days prior to the note date
Approved by Fannie Mae through PERS	PERS approval must be valid (unexpired) as of the note Date
Approved by FHA	FHA approval must be valid (unexpired) as of the note date

Freddie Mac

Established Condominium Projects (including streamlined reviews): The Seller must review and determine that a condominium project meets Freddie Mac requirements within one year prior to the note date.

New Condominium Projects: The Seller must review and determine that a condominium project meets Freddie Mac requirements within 180 days prior to the note date.

FANNIE MAE LIMITED REVIEW ELIGIBILITY

The following table provides the project review requirements for loans secured by attached units in established condo projects, excluding FL. The required project review type depends on the LTV, CLTV, and HCLTV ratios.

Limited Review Attached Units in Established Condo Project (For Project Outside of Florida) Including 2 to 4-Unit Condo Projects	
Occupancy	Maximum LTV, CLTV and HCLTV Ratios
Principal Residence	Less than or equal to 90% LTV/CLTV/HCLTV
Second Home	Less than or equal to 75% LTV/CLTV/HCLTV
Investment Property	Less than or equal to 75% LTV/CLTV/HCLTV

FREDDIE MAC STREAMLINED REVIEW ELIGIBILITY

The following table provides the project review requirements for loans secured by attached units in established condo projects, excluding FL. The required project review type depends on the LTV, CLTV, and HCLTV ratios.

Streamlined Review Attached Units in Established Condo Project (For Project Outside of Florida) Maximum LTV, CLTV and HCLTV Ratios	
Occupancy	Maximum LTV/TLTV/HTLTV Ratios



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Principal Residence	90%
Second Home	75%
Investment Property	75%

FLORIDA PROJECT REVIEW MAXIMUM LTV/CLTV/HCLTV/ REQUIREMENTS FOR ATTACHED UNITS IN NEW, NEWLY CONVERTED, ESTABLISHED PROJECTS

The following table provides the project review requirements for loans secured by attached units in condo projects located in Florida. The required project review type depends on the LTV ratio of the mortgage loan.

Florida – Attached Units in New and Newly Converted Condo Projects Maximum LTV Ratios			
Occupancy Type	PERS Approved	Full Review (with or without CPM)	Limited Review
Principal Residence	97% (DU)	Not eligible	
Second Home	90%		
Investment Property	85%		

FLORIDA PROJECT REVIEW MAXIMUM LTV/CLTV/HCLTV FOR ATTACHED UNITS IN ESTABLISHED CONDO PROJECTS

Occupancy Type	FANNIE MAE - Florida – Attached Units in Established Condo Projects		
	Maximum LTV Ratios		Maximum LTV, CLTV, and HCLTV Ratios
	PERS Approved	Full Review (with or without CPM)	Limited Review
Principal Residence	97% (DU)		Less than or equal to 75/90/90% LTV/CLTV/HCLTV
Second Home	90%		Less than or equal to 70/75/75% LTV/CLTV/HCLTV
Investor	85%		70/75/75%

FREDDIE MAC – Florida – Streamline Review Attached Units in Established Condo Projects	
Occupancy Type	Maximum LTV/CLTV/HCLTV Ratios
Principal Residence	Less than or equal to 75% LTV/CLTV/HCLTV
Second Home	Less than or equal to 70% LTV/CLTV/HCLTV
Investor	Less than or equal to 70% LTV/CLTV/HCLTV

SUBMISSION REQUIREMENTS

Full review requires the submission of the following items:

- Condominium Questionnaire
- Budget
- HOA insurance showing \$1,000,000 liability coverage

- Fidelity coverage for project with over 20 units
- Appraisal
- Recorded Declaration and Bylaws (only required for new projects)
- Balance sheet

See *Project Review Submission Instructions*, [Doc. #3253](#) for more information on project approval.

STATE RESTRICTIONS

New Type R Florida projects must be Fannie Mae PERS approved.

FL condos over 80% LTV refer to the MI Company website for details and restrictions. Acceptable new conversion projects are not eligible to be underwritten by any Delegated Channel. The LTV and CLTV for Type R conversion properties will be capped at 10% less than maximum financing for the loan product. For example, if the product allows 95% LTV/CLTV, condominium conversions will be capped at 85% LTV/CLTV.

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

FANNIE MAE TYPE S/FREDDIE MAC ESTABLISHED PROJECTS

- Control of the HOA has been turned over to the unit owner from the developer
- Fannie Mae: The project must be 90% conveyed to unit purchasers; Freddie Mac: the project must be 75% conveyed to unit purchasers.
- All common elements and amenities must be completed and not subject to additional phasing or add-ons
- Owner occupancy requirements for investment transactions:
 - Fannie Mae – attached units in established projects (including 2 to 4-unit projects), at least 50% of the total units in the project must be conveyed to principal residence or second home purchasers. Financial institution-owned REO units that are for sale (not rented) are considered owner-occupied when calculating the 50% owner-occupancy ratio requirement
 - Freddie Mac – 50% of the total units in the project must be conveyed to purchasers as principal residences or second homes. This is not required on primary residence/second home transactions
- There are no occupancy restrictions for owner occupied or second home transactions.
- Fannie Mae - For Type S conversions, a satisfactory engineer's report is required if the project has been converted in the most recent three years. It must comment favorably on sound transmission, the structural integrity of the project and the condition and remaining useful life of the major project components, such as heating and cooling systems, plumbing, electrical systems, elevators, boilers, and roofs. The report must state the project is free of environmental hazards. An engineer's report is not required if a Limited or Streamlined Review is performed. All construction/rehab work must be complete.
- Fannie Mae - A new project may be reviewed as an established project with less than 90% of the units sold to unit purchasers, provided the deficit is the result of the developer holding back units for rent. The following requirements must be met:
 - construction is 100% complete;

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- the project is not subject to any additional phasing or annexation, and the HOA has been turned over to the unit owners;
- the developer's share of the units held back for rental is no more than 20% of the project's total units;
- HOA fees are paid current in developer-held units; and
- there are no active or pending special assessments in the project.

FANNIE MAE TYPE S PERS APPROVAL

- May use this process for projects that do not meet Fannie Mae Project Standards

FANNIE MAE TYPE R/FREDDIE MAC NEW PROJECTS

- New projects are projects in which less than 90% of the total units have been conveyed to the unit purchasers and/or the HOA is still controlled by the developer. New projects also include projects that are not fully complete, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condominium.
 - See [Fannie Mae Type S](#) section for additional flexibilities
- The legal phase must be 100% complete. All units must be constructed to the buyers' preference stage.
 - Freddie Mac – For 2- to 4-Unit projects, all units, common elements and amenities of the project must be complete and not subject to any additional phasing.
- Projects containing units with less than 400 square feet must PERS approved.
- Please refer to the state restrictions for Type R conversions.
- Pre-sale requirement:
 - At least 50% of the total units in the project must have been conveyed (or must be under contract to be sold) to principal residence purchasers or second home purchasers; or
 - For a specific phase, or phases, in a new project, at least 50% of the total units in the subject phase(s) considered together with all prior phases must have been conveyed (or must be under contract to be sold) to principal residence purchasers or second home purchasers.
 - For the purpose of calculating owner-occupancy, a single building can only have one legal phase regardless of whether the condo project is comprised solely of that single building or multiple buildings. Legal phases are defined by the project documents
 - Freddie Mac – For 2- to 4-Unit projects, all but one unit in the project must have been conveyed or must be under contract to purchasers who will occupy the units as their Primary Residences or second homes.
- Freddie Mac - For a Condominium Project that was created by conversion of a building(s) with a prior use the following requirements must be met:
 - For a conversion involving a Non-Gut Rehabilitation of a prior use of the building that was legally created within the past **three** years, the engineer's report (or functionally equivalent documentation for jurisdictions that do not require an engineer's report) must state that the project is structurally sound, the condition and remaining useful life of the major project components are sufficient to meet the residential needs of the project, and that there is no evidence that any of these conditions have not been met. Major

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components include the roof, elevators and mechanical systems such as HVAC, plumbing and electricity.

- A review of the engineer's report (or functionally equivalent documentation) is not required for conversions involving:
 - A Gut-Rehabilitation, and
 - A Non-Gut Rehabilitation if more than five years have elapsed since the legal creation of the project
- All rehabilitation work involved in the conversion (Non-Gut Rehabilitation and Gut Rehabilitation) must be completed in a professional manner

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

- Fannie Mae
 - Projects that are newly converted, non-gut rehabilitation must be Fannie Mae (PERS) approved that contain more than four attached residential units, and are only eligible for delivery to Fannie Mae.
- The following applies to both Fannie Mae and Freddie Mac
 - Projects with units of less than 400 square feet.
 - Please refer to the state restrictions for Type R conversions.

CONDOMINIUM PROJECT LEGAL DOCUMENT REVIEW REQUIREMENTS FOR UNITS IN NEW OR NEWLY CONVERTED PROJECTS

The table below provides requirements for the review of the condominium project's legal documents for units in new and newly converted condominium projects containing more than four residential units.

Condo Project Legal Document Review Requirements - For Units in New or Newly Converted Condo Projects	
Limitations on Ability to Sell/Right of First Refusal	<p>Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to:</p> <ul style="list-style-type: none"> • foreclose or take title to a condo unit pursuant to the remedies in the mortgage, • accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or • sell or lease a unit acquired by the mortgagee or its assignee.
Rights of Condo Mortgagees and Guarantors	<p>The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condo project the right to timely written notice of:</p> <ul style="list-style-type: none"> • <i>any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage;</i> • any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage; • a lapse, cancellation, or material modification of any insurance policy maintained by the homeowners' association; and • any proposed action that requires the consent of a specified percentage of mortgagees.
First Mortgagee's Rights Confirmed	<p>No provision of the condo project documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of</p>

Condo Project Legal Document Review Requirements - For Units in New or Newly Converted Condo Projects	
	<p>payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condominium units and/or common elements.</p>
Amendments to Documents	<p>Required provisions related to amendments to project documents are as follow:</p> <ul style="list-style-type: none"> • The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages. • The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51% of the votes of the unit estates that are subject to mortgages. • The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested. Notwithstanding the foregoing, project documents that were recorded prior to August 23, 2007, may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 30 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested.

FANNIE MAE TYPE T CONDOMINIUM

Type T projects are new condominium projects that are reviewed and approved by Fannie Mae (PERS). Please refer to the state restrictions for Type R conversions.

SMALL CONDOMINIUM PROJECTS 2 TO 4-UNITS

Fannie Mae

Project review is waived for new and established condominium projects that consist of no more than four units. The following requirements will apply:

- The project must be covered by the types of hazard and flood insurance
- the project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project
- priority of common expense assessment requirement is met
- when an appraisal is obtained, it must meet all applicable appraisal requirements

Freddie Mac

2-4 unit condominium projects must comply with the standard review.

FHA – APPROVED CONDO REVIEW ELIGIBILITY – FANNIE MAE

Fannie Mae accepts delivery of FHA mortgage loans in FHA-approved condominium projects that appear on the FHA-approved condominium list. For conventional mortgage loans, Fannie Mae will accept delivery of mortgages in established projects on the FHA-approved list provided the approval

Conventional Underwriting Guidelines

was completed by FHA HUD Review and Approval Process (HRAP) rather than through an FHA Direct Endorsement Lender Review and Approval Process (DELRAP). FHA condominium project approval is not acceptable for conventional mortgage loans secured by units in new or newly converted condominium projects.

Lenders may search for FHA-approved condominium projects by location, name, or project status online at HUD.gov or through CPM. Must be a Fannie Mae approved Seller/Servicer to access CPM.

Lenders must maintain copies of the FHA approval documentation in the loan file.

CONDOMINIUM FLOOD INSURANCE

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

CALIFORNIA CONDOMINIUM EARTHQUAKE INSURANCE

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

LIABILITY INSURANCE

Each project must have \$1,000,000 business liability insurance coverage with HOA named as the insured. This is not required when the product is a Fannie Mae DU Refi Plus II – Same Servicer, Fannie Mae DU Refi Plus II – Other Servicer or Fannie Mae DU Refi Plus II – Value Plus.

FREDDIE MAC

Liability insurance is required for all Condominium Projects, except the following:

- Condominium Projects reviewed under the streamlined project review:
 - Detached Condominium Unit Mortgages reviewed under the Detached Condominium Project review type
 - Freddie Mac-owned "no cash-out" refinance Condominium Unit Mortgages
 - 2- to 4-Unit Condominium Projects that do not maintain liability insurance based on the following criteria:
 - The project contains side-by-side units (no stacked units)
 - There is documentable evidence acceptable to the Seller that the project does not contain any common elements that would require liability coverage (for example, units are only separated by lot lines and a party wall); and
 - The homeowners association's legal documents do not require the maintenance of a general liability policy in the name of the homeowners association
 - Freddie Mac Relief Refinance Mortgages – Same Servicer and Freddie Mac Relief Refinance Mortgages – Open Access

MASTER HAZARD INSURANCE

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

HO-6 INSURANCE

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

FIDELITY (EMPLOYEE DISHONESTY) BOND INSURANCE

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

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

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

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

FANNIE MAE

Fidelity/crime coverage is not required for projects that meet the criteria for a waiver of project review. Fannie Mae does not require a thorough project review for the project types and transactions for the following:

- Detached condo unit
- 2-4 Unit project
- Planned Unit Development
- Fannie Mae to Fannie Mae limited cash-out refinance. Please refer to the conventional underwriting guidelines for eligibility.

Both liability and fidelity/crime insurance have been updated to remove the requirement for the policies to provide a provision for notification to the condo association or co-op corporation when a policy is substantially modified. However, ten days’ notification is still required when the policies are being cancelled.

FREDDIE MAC

Fidelity or employee dishonesty insurance is required for Condominium Projects, except the following:

- Condominium Projects reviewed under the streamlined project review type

Conventional Underwriting Guidelines

- Detached Condominium Unit Mortgages reviewed under the Detached Condominium Project review type
- Freddie Mac-owned "no cash out" refinance Condominium Unit Mortgages
- Freddie Mac Relief Refinance Mortgages – Same Servicer and Freddie Mac Relief Refinance Mortgages – Open Access

INELIGIBLE PROJECTS

Projects containing any of the following characteristics are not eligible for full, limited, or streamline review:

- Condominium projects that include weekly and/or daily rentals are not acceptable if the HOA is involved in rental of units
- The project has blackout dates restricting the owners' use
- Timeshare or segmented ownership projects
- Houseboat projects
- Continuing care – Any project that operates either wholly or partially, as a continuing care community are ineligible. The communities or facilities are residential projects designed to meet specialized health and housing needs and typically require residents to enter into a lifetime contract with the facility to meet all future health, housing, or care needs.
- Mandatory membership fees – projects with mandatory upfront or periodic membership fees for the use of recreational facilities, included but not limited to country clubs, golf courses, tennis clubs, etc., owned by an outside party, including the developer or builder, are ineligible. Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable. Continuing care communities are not the same as age-restricted projects. Age-restricted projects that restrict the age of residents but do not require residents to enter into a long-term or lifetime contract for healthcare and housing as the residents' age are eligible.
- Multi-dwelling unit condominiums – Projects that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and mortgage
- Condominium projects that represent a legal, but non-conforming use of land if zoning regulations prohibit rebuilding the improvements in the event of partial or full description
- Any project where the owner's association pays the property taxes for the individual units
- Common interest apartments or Own Your Owns
- Projects without an established HOA
- See Commercial Space section for Fannie Mae and Freddie Mac requirements
- Projects in which more than 10% of income is from sources other than dues and assessments
 - Fannie Mae - Non-incident income from the following sources is permitted provided the income does not exceed 15% of the project's budgeted income:
 - income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below), or
 - income from the leasing of units in the project acquired by the HOA through foreclosure.

Conventional Underwriting Guidelines

- The single-entity ownership limits (described in the Ineligible Project Characteristics section) will apply to the number of units owned and rented by the HOA.
- A project for which the homeowners association or developer, if the project has not been turned over to the unit owners, is a party to current litigation, arbitration, mediation or other dispute resolution process, and the reason for the dispute involves the safety, structural soundness or habitability of the project. Refer to Minor Litigation section for additional details.
- Flagstar will not lend in projects where its exposure exceeds 20% of the units in projects with more than 4 units. For 2 to 4-unit projects, Flagstar will lend on more than one unit on a case by case basis.
- New projects where the seller is offering sale/financing structures in excess of investors eligibility policies for individual mortgage loans. These excessive structures include, but shall not be limited to builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the Closing Disclosure.
- Freddie Mac - Projects where a single entity, the same individual, investor group, partnership, or corporation, owns more than allowed as defined below:
 - For 2 to 4-unit projects no single entity may own more than one unit
 - For 5 to 20-unit projects no single entity may own more than two units
 - For projects with greater than 20 units no single entity may own 25% of the total units.
 - For developer leased units used for low- or moderate-income rental purposes in accordance with State or local law or regulation, the calculation and requirements listed below for units owned by a Housing Finance Agency (HFA), or similar entity based on State or local law or regulation, apply. For all other developer leased units, the calculation and limits listed in the above table apply.
 - An HFA, or similar entity based on State or local law or regulation, can own no more than 25% of the total number of units in the project without that ownership being considered an excessive single investor concentration provided that:
 - The units owned by the HFA, or similar entity based on State or local law or regulation, are used for low- or moderate-income rental purposes, and
 - The HFA, or similar entity based on State or local law or regulation, that owns the units must be current in paying unit assessments and any other financial obligations to the HOA with no delinquencies on these payments within the past 12 months
- Fannie Mae – See Single-Entity Ownership section
- Projects that have a recreation lease for any project amenities
- Projects in which an auction has taken place to sell original units. Projects must qualify for a Type S Review.
- Freddie Mac - Any project that is operated as a hotel/resort, even though the units are owned individually. While there is no single factor that can be used to determine whether a project should be classified as a hotel/resort, Flagstar Bank will consider, among other things, the existence of hotel/resort-type services, such as the presence of a registration desk, the use of daily occupancy rates, the availability of food and telephone services, provisions for daily cleaning services, and advertisement of hotel/resort-type services. If the units are subject to rental pooling agreements that require the unit owners to either rent their units or give a management firm control over the occupancy of the units, or the project has the words Hotel, Motel, or Resort in their names, the project is most likely operating as a hotel or motel. Typical

“second home” projects in which units may be rented on a short-term basis are not necessarily hotels. If project is operated as a hotel, resort or other type of hospital entity or that it is any of the characteristics or offers any of the services described below, the project is a Hotel/Resort Project and the project is ineligible. The characteristics or services of a Hotel/Resort Project include but are not limited to any of the following:

- The project operates or advertises itself as a hotel, resort, inn, motel, lodge, or similar type of hospital entity; includes such terms in its name; has a web site that presents itself as a hotel, resort, motel, inn, lodge, or similar type of hospitality entity; has units available or advertised for rent through a website that offers travel services; or is located at the same address or within the same project as a hotel, resort, motel, inn, lodge, or similar type of hospitality entity.
- The project has an affiliation or agreement with a hotel, resort, motel, inn, lodge, or similar type of hospitality entity and the entity offers rental management or registration services for any unit owner of a unit with a project.
- The unit owners of the project share common elements (including amenities) with a hotel, resort, motel, inn, lodge, or similar type of hospitality entity or the unit owners pay additional fees for the use of such common elements if the unit owner is not part of a rental-management agreement with an entity associated with the project.
- The project is a conversion of a hotel, resort, motel, inn, lodge, or similar type of hospitality entity.
- The project has characteristics or services typically associated with a hotel, resort, motel, inn, lodge, or similar type of hospitality entity. Examples include, but are not limited to the following:
 - Access to individual units is controlled through a centralized key system
 - There are restrictions on interior decorating or furnishings or the units are sold “fully furnished,” or the purchasers must choose from a list of “approved” furniture, floor, and wall coverings for the units
 - Units have interior doors that adjoin other units
 - Units contain lockable storage closets, cabinets, safes, or mini-bars
 - Room service or food and beverage services are available to unit owners
 - Signage is present indicating whether there are vacancies
- The unit owner’s ability to occupy the unit is restricted, whether the restriction is due to zoning or to the existence of a rental-management agreement between a unit owner and an entity associated with the project. Examples of an entity associated with the project include, but are not limited to the developer, an affiliate of or successor to the developer, or a hospitality entity associated with the project.
- The unit ownership is characterized as an investment opportunity and offers a rental split with an entity within the project or associated with the project, whether or not the project has documents on file with the U.S. Securities and Exchange Commission or comparable state agency.
- Fannie Mae - project may not be operated or managed as a hotel, motel, or similar commercial entity as evidenced by meeting one or more of the following criteria:
 - The HOA is licensed as a hotel, motel, resort, or hospitality entity
 - The HOA or projects legal documents restrict owners’ ability to occupy the unit during any part of the year
 - The HOA or project’s legal documents require owners to make their unit available for rental pooling (daily or otherwise)

- The HOA or the project's legal documents require unit owners to share profits from the rental of units with the HOA, management company, resort, or a hotel rental company.

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

COMMERCIAL SPACE – FANNIE MAE

Fannie Mae requires that no more than 35% of a condominium or co-op project or 35% of the building in which the project is located be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade. Note that projects located in flood zones with commercial space greater than 25% of the project's square footage, including any commercial parking facilities, may need supplemental or private flood insurance policies to meet Fannie Mae's requirements for flood insurance. Coverage under the National Flood Insurance Program may provide inadequate coverage for projects with commercial space in excess of 25%.

Any commercial space in the project or in the building in which the residential project is located must be compatible with the overall residential nature of the project.

Note: Rental apartments and hotels located within the project must be classified as commercial space even though these may be considered "residential" in nature. Commercial parking facilities can be excluded from the commercial space calculation.

Calculation of Commercial Space

Commercial space allocation is calculated by dividing the total non-residential square footage by the total square footage of the project or building. Lenders are responsible for determining the total square footage of the project, the square footage of the non-residential space, and the residential space square footage. This calculation includes the total square footage of commercial space even if the residential and commercial owners are represented by separate associations.

Non-residential square footage includes:

- retail and commercial space, and
- space that is non-residential in nature and owned by a private individual or entity outside of the HOA structure.

Examples include, but are not limited to:

- rental apartments,
- hotels,
- restaurants, and
- private membership-based fitness facilities.

Non-residential square footage excludes amenities that are:

- residential in nature;
- designated for the exclusive use of the residential unit owners (such as, but not limited to, a fitness facility, pool, community room, and laundry facility); and
- owned by the unit owners or the HOA.

The following table shows which commercial or mixed-use space must be included in the calculation of the percentage of commercial space:

If the commercial or mixed-use space is...	Then its square footage is included in the calculation of commercial space percentage
Owned, controlled, or operated by the subject property's HOA that is unrelated to the project-specific amenities offered for the exclusive use and enjoyment by the HOA members	Yes
Owned by the subject property's HOA but controlled or operated by a separate private entity Example: Office space owned by the HOA but leased to a private business.	Yes
Owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA AND the commercial space is co-located in the project's building(s) that contain(s) the residential units	Yes
Owned, controlled, or operated by a private entity that is co-located in the building(s) that contain(s) the project's residential units Example: <ul style="list-style-type: none"> • floors 1 to 4 consist of hotel and retail, • floors 5 to 7 consist of privately-owned and -managed rental apartments, and • the remaining floors consist of the condominium project units. 	Yes
Owned, controlled, or operated by a private entity that is NOT co-located in the building(s) or common elements as declared in the project legal documents that contain(s) the project's residential units	No
Owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA BUT the commercial space is located in a building that is separate from the building(s) containing the project's residential units	No

COMMERCIAL SPACE – FREDDIE MAC

No more than 35% of the total above and below grade square footage of the project (or more than 35% of the total above and below grade square footage of the building in which the project is located) is used as commercial or non-residential space.

Calculation of Commercial or Non-Residential Space

The division of the total commercial or non-residential square footage by the total square footage of the project or building will determine the total amount of commercial or non-residential space.

In calculating the amount of commercial or non-residential space, sellers must determine:

- The total square footage of the project (or the building in which the project is located)
- The square footage of the commercial or non-residential space, and
- The residential space square footage

Project Amenities and facilities that are residential in nature, owned by the HOA or unit owners, and allocated for the sole use of the residential unit owners are considered to be residential space.

The following must be included as commercial or non-residential space:

- Retail and other commercial or non-residential space (for example, restaurants and stores)
- Parking space that is not owned by or allocated to the residential unit owners (for example, public parking facilities that are either free or fee-based)

- Residential rental apartments, hotels, motels and other similar types of space, although such space may have residential characteristics,
- Non-residential space that the HOA does not own, but that is owned by a private individual or entity outside of the HOA structure (for example, private fitness facilities that are membership-based rather than owned by the HOA for the sole use of the residential unit owners), and
- The total square footage of commercial or non-residential space even when the HOA representing the residential owners is different from the association representing the commercial owners

LIVE-WORK PROJECTS – FANNIE MAE

Live-work projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. Units in projects that permit live-work arrangements are eligible for sale to Fannie Mae provided the project complies with all applicable local zoning, program, or statutory requirements for live-work projects and the nature of the project is primarily residential.

MINOR LITIGATION

Fannie Mae

If the lender determines that pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, the project is eligible provided the litigation meets one or more of the following:

- non-monetary litigation including, but not limited to neighbor disputes or rights of quiet enjoyment;
- litigation for which the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance;
- the HOA or co-op corporation is the plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project;
- the reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves;
- the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA or co-op corporation if funds are not recovered;
- litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or
- the HOA or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA or co-op assessments.

Litigation that involves personal injury or death does not meet Fannie Mae's criteria for minor litigation unless:

- the claim amount is reasonably anticipated or known,
- the insurance carrier has agreed to provide the defense, and
- the reasonably anticipated or known damages are covered by the HOA's or co-op corporation's insurance.

Conventional Underwriting Guidelines

Construction defect litigation in which the HOA or co-op corporation is the plaintiff are not considered a minor matter unless the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced. In addition, there is no anticipated material adverse impact to the HOA or co-op if the funds are not recovered.

The lender must obtain documentation to support its analysis that the litigation meets Fannie Mae's criteria for minor litigation as described above.

Freddie Mac

Projects in which the HOA is named as a party to pending litigation, or the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, functional use or habitability of the project are ineligible.

If it is documented that the reason for the pending litigation involves minor matters that do not affect the safety, structural soundness, functional use or habitability of the project, the project is eligible if the litigation is limited to one of the following:

- The litigation amount is known, the insurance company has committed to provide the defense and the litigation amount is covered by the insurance policy
- If the litigation amount is unknown a copy of the complaint, or the most recent amended complaint, along with an attorney letter that supports the litigation involves minor matters is required. The attorney letter must state:
 - the reason for the litigation;
 - that the insurance company has committed to provide the defense; and
 - that any potential monetary judgment against the HOA, or settlement with the HOA, including punitive damages, will likely be covered by the HOA's insurance policy. If the attorney indicates the matter will not likely be covered by the HOA's insurance policy, then the project is ineligible; or
- The matter involves:
 - A non-monetary neighbor dispute or right of quiet enjoyment, or
 - The HOA is the plaintiff in a foreclosure action or action for past due HOA assessments, or
 - The HOA is the plaintiff in the litigation seeking reimbursement for expenditures made to repair the project's component(s) which may have included items that related to the safety, structural soundness, functional use or habitability of the project, the repair permanently resolved the defect or issue and the expenditures did not significantly impact the financial stability or future solvency of the HOA.

PROJECTS CONSISTING OF MANUFACTURED HOMES

When determining the eligibility of condominium, coop or PUD projects consisting of manufactured homes on the basis of a Full Review, the property and project must meet the additional eligibility requirements described in the following table.

Additional Requirements for Condo Projects Consisting of Manufactured Home Units

- Certain manufactured home projects must be submitted to PERS. Lenders must perform a pre-PERS submission review to confirm the project meets the Full Review and other requirements.
- The condominium project must meet all Full Review requirements, as applicable.

Conventional Underwriting Guidelines

- CPM should not be relied upon to complete the Full Review because it does not contain all the requirements that apply to condo projects consisting of manufactured homes.
- The project must not contain campgrounds or other facilities for transient or mobile units.
- The project legal documents must require a provision for land-lease “hold-out” units to be converted into the condominium structure upon transfer, sale, or refinance of property. Land lease “hold-out” units are limited to 25% or less of the total units in the project.
- Land-lease hold-out units are units where the structure is owned by an individual, but the land is leased from the HOA or project sponsor. These units were not converted to condo ownership when the project converted to a condominium regime.

SINGLE ENTITY OWNERSHIP – FANNIE MAE

A project meets the definition of single-entity ownership when a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:

- projects with 5 to 20 units - 2 units
- projects with 21 or more units - 20%

Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements.

The following may be excluded from the single-entity ownership calculation:

- units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or
- units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.

The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, the following requirements must be met:

- units owned by the single entity represent no more than 49% of the units;
- evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less of the project units;
- the single entity is current on all HOA assessments; and
- there are no pending or active special assessments in the project.

ADDITIONAL CONDOMINIUM WARRANTIES

- Project or legal phase is physically completed including all units, common areas, amenities, and facilities.
- Delinquent HOA Fees – No more than 15% of the unit owners are more than 60 days delinquent in payment of homeowners’ dues or assessments.
- Leasehold projects must meet agency guidelines. See the [Leaseholds](#) section for more information.
- Projects Budget must meet the following criteria:

Conventional Underwriting Guidelines

- The budget must be consistent with the nature of the project.
- The budget must provide for the annual funding of replacement reserves for capital expenditures and deferred maintenance equal to at 10% of the budgeted income of the amount is required regardless of the amount of money the HOA has currently collected for reserve funding. The budget must also provide for the adequate funding for insurance deductible amounts.
 - **Incidental income on which the project does not rely for ongoing operations, maintenance or capital improvements, income collected from utilities typically paid by the individual unit owners, income allocated to reserve accounts and special assessment income may be excluded from the reserve calculation.**
- When the project's budget does not have a line item allocating at least 10% of the budgeted income to reserves for capital expenditures and deferred maintenance, an acceptable reserve study in lieu of the 10% may be used provided all the following conditions are met:
 - The reserve study must have been completed within 36 months of the project review and be prepared by an independent third party that has specific expertise in completing reserve studies. This may include a professional with reserve study credentials, a construction engineer, a CPA who specializes in reserve studies, or professional with demonstrated knowledge of and experience in completing reserve studies, and
 - The reserve study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to the standard reserve requirements, and
 - The reserve study demonstrates that the project's funded reserves meet or exceed the recommendations included in the reserve study , and
 - The reserve study must meet the following requirements:
 - All major components and elements of the project's common areas for which repair, maintenance, or replacement is expected, and
 - The condition and remaining useful life of each major component, and
 - An estimate of the cost of repair, replacement, restoration, or maintenance of major components, and
 - And estimate of the total annual contributions required to defray costs (minus existing reserves funded for this purpose), including inflation, and an analysis of existing funded reserves, and
 - A suggested reserve funding plan.
 - These requirements for a budget review, replacement reserves, and reserve study are not applicable to 2 to 4-unit projects.
- Freddie Mac – Project Budget and Working Capital Fund for New Projects - When a project relies on contributions to a working capital fund for New Condominium Projects the following requirements must be met:
 - The Project Documents require the purchaser of a Condominium Unit to pay a non-refundable and non-transferable assessment to a working capital fund which must be established for the periodic maintenance, repair and replacement of the Common Elements
 - The assessment must be equal to a minimum of at least two months of the HOA fees attributable to the Condominium Unit and be due and payable at closing

- The developer is in control of the HOA

COOPERATIVES

A cooperative unit is defined as a residential or mixed-use building or project where a corporation or trust holds title to the property. The cooperative corporation sells shares of stock representing the value of a single unit to individuals who receive a proprietary lease or an occupancy agreement as evidence of his or her right to possess a particular unit.

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

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

The cooperative corporation is owned jointly by the tenant-stockholders by virtue of their ownership of stock, share, or membership certificates in the corporation. Tenant-stockholders receive exclusive rights to occupy specific units. In order for cooperative share loans to be eligible, the cooperative project in which the secured units are located must qualify as Cooperative Housing Corporations under Section 216 of the Internal Revenue Service Code. The cooperative corporation must provide a statement about the project's compliance with Section 216 of the Code.

DOCUMENTATION REQUIREMENTS

Documentation Requirement for Type 1 Projects	
Cooperative Questionnaire (fully completed and signed)	Prior to Closing
Cooperative Interest Appraisal (2090)	Prior to Closing
The current annual operating budget. If the most recent operating budget is not available, the most recent audited financial statements or corporate tax returns may be provided to determine that the financial requirements have been.	Prior to Closing
Most recent 2 years audited financial statements, with the most recent year being audited within 120 days of the co-op corporation's fiscal year-end	Prior to Closing
Proprietary lease	At Closing
Recognition agreement (legal requirements)	At Closing
All required insurance declaration pages	Prior to Closing and At Closing
UCC-1 Filing	At Closing

ELIGIBILITY REQUIREMENTS

- Owner-occupied primary residence
- Second home
- Loans may not have subordinate financing

- All projects must contain a minimum of 2-units
- Coop must be located in New York or New Jersey
- The project must be located in an area with a demonstrated market acceptance for the cooperative form of ownership
- The project may not be an ineligible project
- The project's operating budget must be consistent with the nature of the project and provide for adequate replacement services
- The proprietary lease or occupancy agreement between the tenant-stock holder and the coop corporation must give the tenant-stock holder the right to occupy the unit for a period that extends to at least the maturity date of the share loan
- No more than 20% of the units in the project will be financed by Flagstar Bank.
- Must meet all the requirements listed above when applicable

INELIGIBLE PROJECTS

- Land-Home Cooperative – A property located in a community where the individual homeowners own the dwelling and the cooperative corporation owns only the land and the common areas in the project
- Time-share or segmented ownership projects
- Houseboat projects
- Multi-dwelling unit projects that permit an owner to hold title to more than 1 dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and mortgage
- Projects with less than 2-units
- Projects that represent a legal, but non-conforming use of land, if zoning regulations prohibit rebuilding the improvements in the event of partial or full destruction
- See Single Entity Ownership – Fannie Mae - section under Condominium requirements
- A tax-sheltered syndicate leasing to a cooperative or leasing cooperatives: Projects that involve the leasing of the land and the improvements to the cooperative corporation, even if the cooperative corporation owns part of the building
- Limited Equity Cooperatives (unless PERS approved) – Projects in which the cooperative corporation places a limit on the amount of return that can be received when stocks or shares are sold
- Projects in which the developer or sponsor (the person or corporation that takes on the responsibility of managing the project, usually a board of directors) has an ownership interest or other rights in the project real estate or facilities (other than the interest or rights it has in relation to unsold units)
- Manufactured Housing Units
- A project for which the homeowners association or developer, if the project has not been turned over to the unit owners, is a party to current litigation, arbitration, mediation, or other dispute resolution process and the reason for the dispute involves the safety, structural soundness or habitability of the project.

AMENDMENTS TO DOCUMENTS

The co-op's project's documents must provide for the tenant-stockholders to have the right to amend them. In addition, the co-op corporation must be legally bound to notify the holder of a co-op share loan about any proposed material changes to the co-op project with respect to allocation of membership

interests, voting rights, insurance coverages, and any other provisions that are for the express benefit of the lender.

ASSIGNMENT OF CO-OP'S LEASE/OCCUPANCY RIGHTS

Generally, the project documents should not permit the co-op corporation to restrict the sale, conveyance, or transfer of a unit owned by a lender, its successors, or assigns, nor to place any limits on the assignment of the proprietary lease or occupancy agreement to the lender, its successors, or assigns. This lease or agreement must be assumable by the lender if the tenant-stockholder defaults on the share loan. If the co-op's organizational documents require that a tenant-stockholder be a natural person, they must permit the lender to select a non-corporate designee for any acceptance of a deed in lieu of foreclosure. If the lender assumes the lease or agreement as the result of the tenant-stockholder's default, the co-op corporation must allow the lender to attempt to sell its interest in the lease or agreement. However, if the lender is unable to effect a satisfactory sale within 60 days – either through its own efforts or with assistance from the co-op corporation – the co-op corporation may not prohibit the lender from subletting the unit.

The project documents may grant the co-op corporation the right to approve a lender's sub-lessee or to offer an alternate sub-lessee that is satisfactory to the lender. However, the co-op corporation's approval standards and procedures may not be unreasonably restrictive or in violation of application law, and the action must be completed within a reasonable time after the lender requests approval of a proposed sub-lessee.

APPRAISAL

A full URAR, Individual Cooperative Interest Appraisal Report Form 2090 is required on all cooperatives. Appraisal Form 2095 is not acceptable. The appraiser must provide at least one recent comparable within the same project and one from a competing cooperative project. The appraisal should indicate that the project is located in an area with a demonstrated market acceptance for the cooperative form of ownership. The degree of acceptance is generally reflected in the availability of information on similar comparable sales of cooperative units in the market area.

BLANKET MORTGAGE

The blanket mortgage for the project may be a balloon mortgage. The remaining term may not be less than six months. If the balloon mortgage incorporates an adjustable-rate feature, and the remaining term is less than three years, but not less than six months, the current interest rate may not be subject to an interest rate adjustment prior to the maturity date.

Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage. However, if Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount available to the borrower must be reduced by the portion of the unpaid principal balance of the blanket mortgage(s) that is attributable to the subject unit's ownership interest.

BUDGET

The co-op should project sufficient income to cover operating expenses and capital expenditures. The co-op should have a plan to fund reserves for future repair and replacement of major components or have sufficiently funded reserve accounts.

If the most recent operating budget is not available, the most recent audited financial statements or corporate tax returns may be provided to determine that the financial requirements have been met.

CALCULATING LTV RATIO

The method for calculating the LTV ratio for a co-op share loan is based on whether the borrower assumes his or her pro rata share of the blanket mortgage or does not. In those markets where the borrower assumes his or her pro rate share of the blanket mortgage, the LTV ratio is determined by dividing the original loan amount by the lower of:

- The sales price for the co-op unit, [unencumbered by the unit's pro rata share of the co-op project's blanket mortgage(s)], or
- The appraised value of the co-op stock or shares and the related occupancy rights [unencumbered by the unit's pro rata share of the project's blanket mortgage(s)].

In those markets where the borrower does not assume his or her pro rata share of the blanket mortgage, then the LTV ratio is determined by dividing the original loan amount by the lower of:

- The sales price for the co-op unit, or
- The appraised value of the co-op stock or shares and the related occupancy rights.

CLOSING

Closing and closing document preparation must be coordinated and scheduled with one of Flagstar Bank's approved New York settlement agents for cooperatives as listed on *Approved Settlement for Cooperatives*, [Doc. #4641](#).

CO-OP CORPORATION'S RECOGNITION AGREEMENT, RESPONSIBILITIES, AND LENDER'S RIGHTS

The project documents must either require the co-op corporation to execute a separate agreement, such as a recognition agreement, or include provisions to recognize specific rights of the lender that finances the share loan, or those of its successors or assigns, and the co-op corporation's responsibilities to that lender.

CO-OP CORPORATION'S RESPONSIBILITIES

The recognition agreement, or the project's legal documents must include, among other things, the following responsibilities for the co-op corporation:

- The co-op corporation must evict a tenant-stockholder who has defaulted on his or her share loan and must terminate that tenant-stockholder's lease, if the share loan holder requests it to do so.
- The co-op corporation must be legally bound to notify the lender of any of the following changes or occurrences:
 - Any threatened or actual condemnation, eminent domain proceeding or acquisition, or any actual loss, whether or not covered by insurance, that affects any portion of the co-op project or unit; and
 - Failure to maintain compliance with co-operative corporation eligibility under IRS Code Section 216; and
 - Any 30-day delinquency by the co-op corporation in payments due under any blanket mortgage for real estate taxes, assessments, and charges imposed by a government entity or public utility, or under any ground lease; and
 - Any lapse, cancelation, or material modification of any insurance or fidelity insurance coverages maintained by the co-op project; and
 - Any proposed action that requires the consent of a specified percentage of eligible share loan holders; and

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- Any 90-day delinquency by the tenant-stockholder that is related to the payment of his or her monthly assessments or carrying charges.
- The co-op corporation must be legally bound to notify the lender of any lapse or cancellation of any insurance coverages maintained by the co-op project.

DELINQUENCY

No more than 15% of the owners may be more than 60 days delinquent in the payment of their financial obligations to the co-op corporation.

FIDELITY (EMPLOYEE DISHONESTY) BOND INSURANCE

Projects with over 20 units must show evidence of the fidelity (employee dishonesty) bond coverage. The HOA must be named as the insured. The HOA must carry fidelity bond insurance which covers the maximum funds that are in the custody of the HOA (or co-op corporation) or its management agent at any time while the policy is in force. A lesser amount of coverage (the sum of three months of assessments on all units in the project) is acceptable if the project's legal documents require the homeowners association and any management company to adhere to one or more of the following financial controls:

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

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

FLIP TAXES

Co-op share loans secured by units in co-op projects that require the payment of a flip tax are eligible for delivery as long as the co-op project's legal documents permit the imposition of a flip tax and provide for one of the following:

- The lender is exempt from paying the flip tax if the lender acquires the co-op unit in foreclosure, in a transfer by the borrower in lieu of foreclosure, or any other transfer of the borrower's interest in the co-op unit in full or partial satisfaction of the borrower's obligations under the co-op share loan; or
- The flip tax is payable when the sales price of the co-op unit exceeds the existing unit owner's purchase price based on property appreciation and then is assessed only on the amount of the appreciated in value (this flip tax is profit-based).

If the flip tax does not meet one of these requirements and is due whether or not the sales price exceeds the existing unit owner's purchase price, then it may still be eligible as long as the amount of the flip tax is less than or equal to 5% of the value of the property, calculated as the lesser of appraised value or sales price, and it is calculated in one of the following ways:

- A flat fee,
- A fee per share,
- A percentage of the appraised value or sales price of the co-op unit, or

- A dollar amount per room

LENDER'S RIGHTS

The project documents must grant the lender financing a share loan the right to cure the tenant stockholder's default in his or her assessment payments or carrying charges and the right to review and approve the following actions before the co-op corporation can consent to them:

- Any surrender, cancelation, modification, or assignment of any documents evidencing ownership, possession, and use of a unit;
- Any sublease of a unit;
- Any further or additional pledge or mortgage of any documents evidencing ownership, possession, and use of a unit;
- Any action to change the form of ownership of the project; or
- The contraction, expansion, or termination of the co-op project.

LIABILITY INSURANCE

Each project must have \$1,000,000 business liability insurance coverage with HOA named as the insured. This is not required when the product is a Fannie Mae DU Refi Plus II – Same Servicer, Fannie Mae DU Refi Plus II – Other Servicer or Fannie Mae DU Refi Plus II – Value Plus.

LIEN POSITION

The share loan must be secured by the assignment, in pledge or trust, of the borrower's leasehold estate; a pledge or trust of the corporation stock, shares, or membership certificate; and any other documents that are appropriate under individual state or local laws and practices.

The lender that is financing the share loan must receive an assignment of the proprietary lease, occupancy agreement, or other similar evidence of the right to occupy the unit for all share loans that it delivers to Fannie Mae. The lender must also obtain a stock power, assignment, or other similar document that authorizes the lender to transfer ownership interest in the event of a default. Valid financing statements and assignments of financing statements must be executed and filed, if necessary to perfect Fannie Mae's security interest under the Uniform Commercial Code of the state in which the property is located. Information searches or equivalent evidence of filing financing statements and assignments of financing statements must be obtained and must show that the Fannie Mae co-op share loan is in first-lien position. In those states in which co-op units are considered real property, perfection of the lien must comply with state law applicable to real estate.

The share loan must be a first-lien, except that, where custom dictates to the contrary, Fannie Mae will permit its lien to be subordinate to the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents the pro rata share of the corporation's payments for the blanket mortgage, current year's real estate taxes, operating expenses or maintenance fees, and special assessments.

Fannie Mae will also permit its lien to be subordinate to any assignment of rents or maintenance expenses in any mortgage or deed of trust that is secured by the co-op project, or any regulatory agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.

MASTER HAZARD INSURANCE

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

MORTGAGE INSURANCE

Mortgage Insurance is only available through MGIC.

NEGATIVE CASH FLOW FROM UNSOLD UNITS

This only applies to the five boroughs located within New York City and the following NY Counties:

- Nassau
- Suffolk
- Rockland
- Westchester

Negative cash flow from unsold units is permitted provided all of the following requirements are met:

- The co-op corporation's last audited financial statement, current operating budget, and proposed operating budget for the following fiscal year, if any, and the New York State Attorney General's Financial Disclosure Statement ("Attorney General's Disclosure Statement") applicable to such co-op project must demonstrate that to the extent that the project has negative cash flow from unsold units.
 - Such negative cash flow including, but not limited to, any principal and interest payments relating to the financing obtained by the sponsor to acquire the co-op project will not exceed an amount equal to 5% of the project's annual operating budget;
 - No more than 15% of the co-op unit owners are more than 30 days delinquent in the payment of their financial obligations to the co-op corporation; and
 - If the sponsor fails to pay the monthly assessments relating to all co-op units owned by the sponsor, the monthly assessments of the co-op share owners other than the sponsor will not increase by more than 10%.
- The Attorney General's Disclosure Statement or equivalent sponsor disclosure must also indicate that:
 - The sponsor is current on all financial obligations under the offering plan relating to the project;
 - The sponsor is current on all financial obligations relating to any other project in which the sponsor owns or holds more than 10% of the units; and
 - The sponsor has not pledged any of the shares of the co-op project as security for any loan other than to secure, in whole or in part, the financing obtained by the sponsor to acquire the co-op project.
- The Attorney General's Disclosure Statement or equivalent sponsor disclosure must be dated no more than 18 months prior to the share loan note date.

NEWLY CONVERTED NON-GUT REHABILITATION (PROJECTS WITH ATTACHED UNITS ONLY) THAT CONTAIN MORE THAN FOUR RESIDENTIAL UNITS

Newly converted non-gut rehabilitation projects are now an eligible property type, but must have PERS approval. Newly converted non-gut rehabilitation co-op projects is defined as follows:

- A project for which the building has been recently converted from another use such as, but not limited to, apartment use, hotel building, or warehouse;
- The renovation work did not involve structural or functional changes, such as the replacement of all HVAC and electrical components and was limited to cosmetic or design changes such as painting, flooring, and appliances; and
- The project meets the criteria for being a new project because any of the following conditions exist with respect to the status of the projects:
 - Fewer than 90% of the stock or shares have been sold to purchasers;
 - The developer or sponsor is in control of the co-op corporation;
 - The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a co-op; or
 - The project is subject to additional phasing or annexation.

The following newly converted projects may be reviewed by the lender through the standard co-op review process rather than being submitted to PERS:

- Any non-gut rehabilitation conversion project that was converted at least years prior to the co-op share loan note date that is considered “newly converted” solely because more than 10% of the stock or shares are owned by the sponsor, refer to the [Single Entity Ownership](#) section; and
- 2 to 4-unit non-gut rehabilitation conversions.

OCCUPANCY REQUIREMENT

Stock, share, or other contractual agreement evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.

PRO RATA

When calculating the pro rata of the underlying mortgage us the calculation as followed:

[Underlying blanket mortgage balance ÷ total number of outstanding shares in cooperative corporation x subject shares] ÷ (appraised value)

Example:

Underlying Mortgage	\$8,900,000
Total # of Shares Outstanding	100,000
Subject Shares Outstanding	240
Appraised Value	\$75,000

$$\$8,900,000 / \$100,000 \times 240 = \$21,360 / \$75,000 = 29\%$$

The pro rata share should not exceed 35%. A higher ratio (not to exceed 40%) may be used when there are fully documented compensating factors that justify using the higher ratio.

SHARED AMENITIES

Shared amenities are permitted only two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following:

- A description of the shared amenities subject to the arrangement; and
- A description of the terms under which unit owners in the project may use the shared amenities; and
- The provisions for the funding, management, and upkeep of the shared amenities; and
- The provisions to resolve conflicts between the residential projects regarding the amenities.

Examples of shared amenities include, but are not limited to clubhouses, recreational, or fitness facilities, and swimming pools. The developer may not retain ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.

Freddie Mac has clarified common elements, such as parking and recreational facilities, must not be subject to a lease between unit owners or the homeowners association (HOA) (as lessee) and any other party (as lessor), with the exception of commercial leases for parking or permit arrangements for parking entered into with parties unrelated to the developer.

SINGLE ENTITY OWNERSHIP

A project meets the definition of single-entity ownership when a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:

- projects with 5 to 20 units - 2 units
- projects with 21 or more units - 20%

Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements.

The following may be excluded from the single-entity ownership calculation:

- units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or
- units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.

The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, the following requirements must be met:

- units owned by the single entity represent no more than 49% of the units;
- evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less of the project units;
- the single entity is current on all HOA assessments; and
- there are no pending or active special assessments in the project.

Conventional Underwriting Guidelines

For projects located in the five boroughs of the City of New York and New York state counties of Nassau, Rockland, Suffolk, and Westchester the sponsor may own more than 10% of the stock or shares in the corporation and the related occupancy rights provided that any such stock or share ownership above the 10% limitation pertains to units that are subject to statutory rent regulations that limit the sponsor's ability to sell his or her ownership interest in such shares or stocks. The lender must obtain documentation to validate that the stock or share is subject to such regulations. Please review the below chart for the required documentation.

Required Documentation			
Sponsor's Financial Disclosure Requirements	Sponsor owned units are rent stabilized, rent controlled or been documented via the sponsor's website the intent to sell	Sponsor owned units are combination of rent stabilized, rent controlled and market rent	All sponsored owned units are rent stabilized, rent controlled or rent regulated
Attorney General Amendment filed in the past 12 months	X		
Attorney General Amendment filed in the past 24 months		X	
<i>Sponsor's financial Disclosure Statement, Doc. #3259</i>		X	X

The Attorney General Amendment must document the following:

- The sponsor is current on all financial obligations under the offering plan related to the project
- The sponsor is current on all financial obligations relating to any other project in which the sponsor owns or holds more than 10% of the units
- The sponsor has not pledged any of the shares of the co-op project as security for any loan other than to secure, in whole or in part, the financing obtained by the sponsor to acquire the co-op project.

SUBSIDIES OR SIMILAR BENEFITS (SUCH AS TAX OR ASSESSMENT ABATEMENTS)

If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three years, the lender must evaluate the impact the expiration of such benefit will have on the project. If the benefit is scheduled to expire within three years from the note date, the lender must include the higher monthly fees in the borrower's monthly liabilities for debt-to-income ratio qualifying purposes.

TITLE

The closing attorney is required to verify the co-op corporation has good and marketable title to the property, including the dwelling units and amenities.

RESALE RESTRICTED PROPERTIES

Deed restricted properties or resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease agreement, or other instrument executed by or on behalf of the owner of the land. Resale restrictions may limit the use of all or part of the land to occupancy by persons or families of low-income or moderate-

income or on the basis of age, senior communities must comply with applicable law, or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income borrowers. The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions. The resale restrictions are binding on current and subsequent property owners, and remain in effect until they are formally removed or modified, or terminate in accordance with their terms, such as at a foreclosure sale or upon acceptance of a deed-in-lieu of foreclosure.

Flagstar Bank must review the terms and conditions of the resale restriction.

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Allowable Resale Restrictions

- Income limits,
- Age-related requirements (senior communities must comply with applicable laws),
- Purchasers must be employed by the subsidy provider,
- Principal residence requirements,
- First-time home buyer requirements as designated by the subsidy provider,
- Properties that are group homes or that are principally used to serve disabled residents, and
- Resale price limits.

Eligible Subsidy Providers

Eligible subsidy providers, or sponsors, of resale restrictions must be

- Nonprofit organizations;
- Churches;
- Employers;
- Universities;
- Municipalities (including state, county, or local housing agencies); or entities that are otherwise administering government sponsored, federal, state, or local subsidy programs.

The subsidy provider must have established procedures for screening and processing applicants.

Eligible Borrowers for Affordability Related Deed Restrictions

Eligible borrowers must satisfy the specific eligibility criteria and resale restrictions established by the subsidy provider. If the borrower income limits for the resale restrictions differ from the income limits for Fannie Mae's HomeReady mortgage loans and the borrower income limits for the HomeReady mortgage loans are more restrictive, the HomeReady income limits apply.

Loan Eligibility and Occupancy Types

	Eligibility Based on Type of Deed Restriction	
	Affordable	Age-Related
Transaction Types	Purchase and Refinance	
Products	Loans must be fixed-rate or adjustable-rate mortgages with an initial fixed period of five years or more	
Borrowers	<p>Must meet applicable criteria of the deed restriction.</p> <p>Age-related deed restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the borrower could be younger than 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-borrower household member or a renter in the case of investment property.</p> <p>(It is permissible for both affordable and age-related requirements to apply to a single loan.)</p>	
Occupancy	Principal Residence Only	All Occupancy Types
Properties	<p>One- and two-unit properties, PUDs, condos, and co-ops</p> <p>Mortgages secured by manufactured homes and three- and four-unit properties are not eligible.</p>	<p>One- and two-unit properties, PUDs, condos, and co-ops (second homes must be one-unit properties)</p> <p>Mortgages secured by manufactured homes and three- and four-unit properties are not eligible.</p>

Default or Refinancing of Resale Restriction Loans

The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default or the property is in foreclosure.

The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions.

The subsidy provider must exercise its right of first refusal or option to purchase within 90 days of receiving notification of the borrower default or the property foreclosure.

The subsidy provider may permit borrowers to refinance their mortgage and take cash out of the transaction. However, the resale restrictions may limit the cash-out amount in order to protect the subsidy invested in the property. Lenders must document that the subsidy provider has approved the refinance transaction and should ensure that the cash-out amount complies with the provisions of the specific resale restrictions.

Duration of Resale Restrictions

Fannie Mae will purchase mortgages secured by properties subject to resale restrictions:

- When the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period),
 - Upon the recordation of a deed-in-lieu of foreclosure, or
 - When the resale restrictions survive foreclosure.

There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.

If the resale restrictions survive foreclosure, the lender represents and warrants that the resale restrictions do not impair the servicer's ability to foreclose on the restricted property.

If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu of foreclosure.

If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.

Resale Restriction Appraisal Requirements

In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions.

The lender must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that he or she must include the following statement in the appraisal report:

- This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure.

In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparables with similar restrictions.

The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

Title Requirements

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

Delivery of Mortgage Secured with a Resale Restrictions Survive at Foreclosure

A Special Feature Code (SFC) is used to identify a loan feature not defined by other attributes. If the resale restriction will survive foreclosure, the following SFC must be associated to the loan.

- SFC- 630 - Used to identify a mortgage secured by a property with resale restrictions that remain in place or survive in the event of foreclosure or acceptance of a deed in lieu of foreclosure.

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Length of Resale Restrictions; Effect of Foreclosure or Deed-in-lieu of Foreclosure

A mortgage secured by a property subject to a resale restriction is eligible for purchase if the resale restriction:

- Survives foreclosure or completion of a deed-in-lieu of foreclosure, or
- Terminates upon foreclosure or completion of a deed-in-lieu of foreclosure.

Right of First Refusal

For properties subject to resale restrictions, any right of first refusal must run to the enabling authority or jurisdiction that imposed the resale restrictions, with a time period not exceeding 90 days from the date of written notice to the authority or jurisdiction that the restricted property is being offered for sale.

Resale Restriction Controls

Resale restriction controls, except for those relating to age-based restrictions, must be administered by a duly authorized authority of state, local or municipal government or an agent of the authority that has established mechanisms to provide applicant screening and processing on an ongoing basis. The resale restriction controls may not be administered by the developer.

Public Land Records

Agreements or requirements, i.e., enacted ordinances, statutes, published policies or imposed restrictions, must appear in the public land records for the property in a manner discoverable by a routine title search.

Restrictive Agreements and Restrictive Covenants

Exceptions restrictive agreements or restrictive covenants of record related to cost, use, setback, resale restrictions, right of first refusal, minimum size and building materials, and architectural, aesthetic or similar matters (other than single-family-use restrictions on 2 to 4-unit properties) are acceptable provided that the following conditions are met.

Payment of Financial Obligations

Any requirement in the deed restrictions requiring the owner of the property to make payments under certain circumstances or requiring repayment of financial subsidies must state that the payment obligation is subordinate to the lien of the First Lien Mortgage.

- The restrictive agreements or restrictive covenants do not create or provide for any lien that would be prior to the lien of the Home Mortgage nor provide for the elimination of the lien of the Home Mortgage.
- The terms and provisions of the restrictive agreements or restrictive covenants are commonly acceptable to private institutional mortgage investors in the area where the Mortgaged Premises are located.
- An endorsement to the title insurance policy affirmatively insures that no violation of any such restrictive agreement or restrictive covenant exists and that any future violation shall not result in forfeiture or reversion of title.

Appraisal Requirements for Properties with Resale Restrictions

The appraisal report must include at least two comparable sales with similar resale restrictions, an analysis of the comparable sales and reflect impact of the resale restrictions on the property's value and marketability.

Additional Requirements Applicable Only to Mortgages Secured by Properties Subject to Income-Based Resale Restrictions

Eligible property types, mortgage products and mortgage purpose requirements.

- Property type and occupancy. The mortgage must be secured by a 1-unit Primary Residence (not a Manufactured Home). The property must be an attached or detached dwelling unit located on an individual lot or in a Condominium Project or Planned Unit Development (PUD).
- Mortgage products. The mortgage must be a First Lien conventional mortgage that is not a Construction Conversion Mortgage or Renovation Mortgage.
- Mortgage purpose. The mortgage must either be (i) a purchase transaction mortgage or (ii) a "no cash-out" refinance mortgage.

Title Requirements

Exceptions for resale restrictions are acceptable provided that the following conditions are met:

- The restrictive agreements or restrictive covenants do not create or provide for any lien that would be prior to the lien of the Home Mortgage nor provide for the elimination of the lien of the Home Mortgage.
- The terms and provisions of the restrictive agreements or restrictive covenants are commonly acceptable to private institutional mortgage investors in the area where the Mortgaged Premises are located.
- An endorsement to the title insurance policy affirmatively insures that no violation of any such restrictive agreement or restrictive covenant exists and that any future violation shall not result in forfeiture or reversion of title.

Delivery of Mortgage Secured by Properties Subject to Income Based Resale Restrictions

A Special Feature Code (SFC) is used to identify a loan feature not defined by other attributes. For income based re-sale provide one of the following SFCs, if applicable.

- SFC 630 - Mortgages secured by properties with resale restrictions that terminate automatically upon foreclosure. Used only with mortgages secured by properties with income-based resale restrictions.
- SFC 631 - Mortgages secured by properties with resale restrictions that survive foreclosure. Used only with mortgages secured by properties with income-based resale restrictions.

ENVIRONMENT HAZARD

Environmental risk exposures are items such as gas tanks, railroad tracks, high tension wires, UFFI, industrial areas, radon, mold, or any other risk exposure. We will only accept properties with the above characteristics that meet the following requirements:

1. If a property inspection by the appraiser discloses a high potential for environmental risk, Flagstar Bank may require a Phase I Environmental Risk Report before determining a property's eligibility. A loan is likely to be conditioned for a Phase I Environmental Risk Report if the following indicators are present:

Conventional Underwriting Guidelines

- Properties that include or are close to an existing or former gas site
- Properties that have served as or are close to a refuse or waste disposal site
- Properties where the past uses or the surrounding uses include the storage or usage of hazardous or toxic substances
- Properties suspected of containing asbestos material that is or may be easily friable, easily crumpled or crushed to powder and capable of being absorbed in the environment
- Properties where emanation of radon gas from the soil may result in detrimental health effects to the building occupants
- Properties where there are known hazardous conditions on or in the property's immediate vicinity where Super Fund sites exist within a 1 mile radius; where the site is in close proximity to oil and gas production; where there is asbestos within the building structure that may have an effect on marketability; where the site is a corner lot property and is known to have been previously used as a gas station locale; or where the historic use of the property to its residential zoning is cause for concern.
- Properties that show evidence of mold must have the mold remediated by a certified firm. After the mold has been remediated, a satisfactory inspection must be provided.

An approved environmental risk auditor must prepare the environmental risk report and Flagstar Bank must show as the client on the risk report.

2. A property may not be approvable due to environmental factors including, but not limited to:

- Presence of a sanitary landfill or other solid hazardous or municipal waste disposal site on the property
- Presence of friable asbestos or substantial amount of non-friable asbestos on the property
- Evidence of spills or soil or ground water contamination on or around the property
- Radon levels above acceptable standards on the property that can only be corrected through large capital improvements
- Conditions that represent violations of applicable local, state, or federal environmental or public health statutes and laws on or near the property
- The property is currently the subject of environmental litigation or administrative action from private parties or public officials or the property is on a federal, state, or local environmental hazard list.
- There must not be any evidence of leakage on gas tank. If the property has a well, we will require satisfactory well certification.

All comparables used should have same characteristics, i.e., gas tank, railroad tracks, etc. The appraiser must state this is common to the area and has no adverse effect on marketability.

FLOOD INSURANCE

Refer to *Flood Insurance*, [Doc. #4603](#) for additional information.

HAZARD INSURANCE

Property insurance for home mortgages must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage should be of the type that provides for claims to be settled on a replacement cost basis.

Conventional Underwriting Guidelines

We will not accept hazard insurance policies that limit or exclude from coverage, in whole or in part, windstorm, hurricane, hail damages, riots, civil disturbances, aircraft, vehicles, smoke, or any other perils that are normally included under an extended coverage endorsement. Damage from earthquakes, floods, and mudslides may be excluded from the policy coverage.

Policies cannot include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

The borrower's deductible does not exceed 5% of the face value of the policy.

For information regarding acceptable amounts of coverage, refer to *Hazard Insurance Requirements, Doc. #4602*. Properties located in Lava Zones 1 or 2 are ineligible.

INELIGIBLE PROPERTIES

- Properties with more than 1 accessory unit (Granny Unit, In-Law unit, etc)
- Vacant land or land development properties
- Properties that are not readily accessible by roads that meet local standards
- Income producing farms or ranches (Property must be residential in nature to be eligible)
- Units in condo or co-op hotels
- Boarding houses;
- Bed and breakfast properties
- Properties that are not suitable for year-round occupancy regardless of location.

CHINESE DRYWALL

If Flagstar Bank is made aware that Chinese drywall is currently present or previously existed in the home, we will not approve, fund, or purchase the loan, regardless of any drywall removal and/or efforts to cure the damage.

Properties with Chinese Drywall may exhibit any of the following characteristics:

- Corrosion on metal fixtures, wires, or plumbing
- Sulfur odor in home
- Wall board with Made in China or Knauf markings

LEASEHOLDS

An attorney's opinion letter stating all warranties are met will be required on all loans.

FANNIE MAE LEASEHOLD REQUIREMENTS

- The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.
- The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien, and must be insured by the lender's title policy.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sub-lessor.
- The term of the leasehold estate must run for at least 5 years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower's name, home owners association or a co-op corporation.

Conventional Underwriting Guidelines

- All lease rents, other payments, or assessments that have come due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times by the lessee either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sub-lessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that the borrower will pay taxes, insurance, and homeowners' association dues related to the land in addition to those he or she is paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must be serviced by either the lender that delivers the mortgage to Fannie Mae or the servicer it designates to service the mortgage.
- The lease must provide lenders with the right to receive a minimum of 30 days' notice of any default by the borrower and the option to either cure the default or take over the borrower's rights under the lease.
- The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable. The table below provides the requirements for establishing the purchase price of the land.

Status of Property Improvements	Purchase Price of Land
Already constructed at the time the lease is executed.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI).	The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year. Leases may be offered with or without a limitation on increases or decreases in the rent payments.
Will be constructed after the lease is executed.	The purchase price of the land should be the lower of the following: <ul style="list-style-type: none"> • the current appraised value of the land, or

Conventional Underwriting Guidelines

Status of Property Improvements	Purchase Price of Land
	<ul style="list-style-type: none"> the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. <p>For example, assume that the total original appraised value for a property was \$160,000, and the land alone was valued at \$40,000 (thus representing 25% of the total appraised value). If the current appraised value is \$225,000, \$50,000 for land and \$175,000 for improvements, the purchase price would be \$50,000 (the current appraised value of the land, because it is less than 25% of \$225,000).</p> <p>Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.</p>

FREDDIE MAC REQUIREMENTS

- The leasehold Mortgage constitutes an interest in real estate
- The lease and any sublease, including all amendments, are recorded in the appropriate land records. A memorandum of lease or sublease may be recorded in lieu of the complete lease or sublease.
- The lease is in full force and effect and is binding and enforceable against the lessor
- If the lessor's fee simple interest in the land is subject to any encumbrances or liens, the fee simple lien-holder has executed and recorded a non-disturbance and attornment agreement that contains the following provisions:
 - The lease or any of the rights of the lessee under the lease will not be terminated or otherwise affected by enforcement of any lien or other rights granted to the fee simple lien-holder
 - The rights of the leasehold mortgagee will not be terminated or otherwise affected by enforcement of any lien or rights granted to the fee simple lien-holder
 - The fee simple lien-holder will not name the lessee or the leasehold mortgagee as a party defendant in any action to enforce its lien
 - If the fee simple lien-holder forecloses on its lien, the lease will continue in full force and effect as a direct lease between the fee simple lien-holder and the lessee, or if applicable, the leasehold mortgagee
 - The fee simple lien-holder will accept the attornment of the lessee
 - The lien of the fee simple lien-holder on the real property does not extend to the improvements and fixtures, real or personal property owned by the lessee
 - The lessee and the leasehold mortgagee have no liability or obligation to the fee simple lien-holder in connection with its lien on the fee simple interest

Conventional Underwriting Guidelines

- Condemnation and insurance proceeds awarded to the lessor will be used for the restoration, repair, or replacement of the property damaged or taken by condemnation if economically feasible

The non-disturbance provisions listed above may be contingent on the lease being in full force effect, and the lessee, or the leasehold mortgagee if it has exercised its rights under the lease and the leasehold mortgage, not being in default in the payment of rent, taxes, or property insurance.

If the lease contains any provisions requiring the lessee to agree to the subordination of the lease to liens or encumbrances on the fee simple interest, these provisions must be conditioned on the lessee and the leasehold mortgagee receiving a recorded non-disturbance and attornment agreement that contains the provisions stated above and is executed by the fee simple lien-holder.

- The lease is a lease of the fee or a sublease executed by both the fee owner and the sublessor. If the lease is a sublease, it must contain a non-disturbance and attornment agreement
- The use of leasehold estates for residential properties is an accepted practice in the area where the Mortgaged Premises are located and such properties are readily marketable
- The instrument creating the lease, sublease, or conveyance reserving ground rents is in a form commonly acceptable to private institutional investors in the area where the Mortgaged Premises are located and contains provisions consistent with Section 41.1 of this Guide
- The original term of the lease or any exercised option to renew the lease or any renewal options that are enforceable by the leasehold mortgagee, whichever is applicable, does not terminate earlier than five years after the maturity date of the Mortgage
- The lease does not contain provisions for termination in the event of damage to or destruction of the Mortgaged Premises so long as the leasehold Mortgage exists
- For sub-leasehold Mortgages, the amount of the sublease payments is at least equal to the amount of the lease payments. The sublease payments are due no less frequently than the lease payments

Required Lease Provisions

- Permit mortgaging of the leasehold, or sub-leasehold, estate
- Permit assignments of the leasehold, or sub-leasehold, estate including any improvements on the leasehold estate, without the lessor's consent; however, if the leasehold is in a restricted community, including but not limited to communities restricted to residents of certain ages or income, the lease must require that the assignee/lessee satisfy those restrictions
- The lease may permit the lessor to review and consent to or deny a proposed assignee/lessee based on whether the proposed assignee/lessee satisfies the creditworthiness requirements of Freddie Mac or other secondary market investors. The lessor will have 5 business days after receipt of the application to deny the assignee/lessee. The lease may prohibit the lessee from leasing or subleasing or renting the leasehold estate; however, in the event of foreclosure or deed-in-lieu of foreclosure, any such provision must cease to be effective for the mortgagee and subsequent purchasers of the property
- Provide for release of an assigning lessee, or sub-lessee
- Permit the leasehold Mortgage security to be insured under a hazard insurance policy
- Provide for payment of hazard insurance proceeds to the leasehold mortgagee or insurance trustee

Conventional Underwriting Guidelines

- Contain the following provisions governing increases in the basic rent and amounts due under the lease
 - Basic Rent
 - Permit an increase in the basic rent during the term of the mortgage and within five years after the maturity date of the mortgage only of the increase is a sum certain amount at a specified date or time interval. During this period, basic rent increases based on the cost of living index or other indices or reappraisal are acceptable if the amount of such increases is subject to an annual maximum limitation.
 - Taxes, Insurance, and Utilities
 - Increases in amounts due under the lease for taxes, insurances, and utilities on the leasehold estate, if collected and paid by the lessor and taxes, insurance, and utilities related to the common areas and facilities in the ground lease community are permitted if;
 - The increase is determined in the same manner as basic rent, including a maximum limitation
 - The increase is based on the verifiable increase in such items imposed by third parties
 - The lease provides for the lessee to obtain documentation of the amount paid to third parties for taxes, insurance, and utilities
 - Use Fees and Operating Expenses
 - Increases for use fees and operating expenses for the common areas, facilities, and services in the ground lease community may not exceed the cost of living index
- Provide that in order for a notice of lessee's default to be valid, the lessor must have sent written notice of the lessee's default to the leasehold mortgagee
- Provide for the right of the leasehold mortgagee, in its sole discretion, to cure a default for the lessee's, or sub-lessee if applicable, account within the time permitted to lessee plus reasonable additional time
- Provide for no termination for non-monetary default as long as no default in rent exists, except for a court-ordered termination. In the event of a court-ordered termination, the lease must provide for the lease to continue in effect, and any improvements to remain on the leasehold estate as long as there is no default in rent, until the completion of the foreclosure or deed-in-lieu of foreclosure or other loss mitigation action with the borrower. In addition, the lease must provide for a new lease of the same priority to be given to the leasehold mortgagee or its designee, in the event the lease terminates because of a court ordered termination. The lessor must provide a title endorsement insuring that the new lease is of the same priority and that the lien on the leasehold estate is a first lien.
 - For purposes of this paragraph, rent includes basic rent, other amounts due under the ground lease for such items as taxes, insurance, and utilities on the leasehold estate, if collected and paid by the lessor and any other use fees and operating expenses to the extent such charges are necessary for the maintenance and preservation of the common areas and community facilities
- Provide that in the event of the bankruptcy of the lessor or the lessee, the lessee must notify the leasehold mortgagee and take, in a timely manner, all action necessary to assume the unexpired term and any renewal options of the lease

Conventional Underwriting Guidelines

- Provide that in case of partial taking, the lessee, or sub-lessee, if applicable, will rebuild and restore the improvements on the Mortgaged Premises, unless the leasehold mortgagee consents to the distribution of the proceeds instead. The proceeds must be applied first towards reduction of the leasehold mortgage debt.
- Provide for protection of the mortgagee's interests in the event of a property condemnation
- Provide for the leasehold mortgagee's right to acquire the lease in its own name or in the name of a nominee upon foreclosure or assignment in lieu of foreclosure
- Provide for the leasehold mortgagee's right to exercise any renewal options that may exist
- Provide that the leasehold mortgagee must approve:
 - Any partition, subdivision, or modification of the ground lease community and the leasehold estate
 - Any surrender, abandonment, or termination of the leasehold estate or the ground lease community
 - The termination or cancellation of the lease or any action that has the effect of terminating the lease, and
 - Any amendments to the lease that affect the rights of the leasehold mortgagee.
- Provide that there shall be no merger of the fee interest and leasehold interest in the event the same person or entity acquires both interests

LIFE ESTATES

Properties with Life Estate rights are not eligible. Any properties titled with these provisions must have the rights removed prior to closing to be considered.

MANUFACTURED HOMES

Flagstar Bank will only purchase loans secured by double-wide manufactured homes under fixed-rate programs. Conventional transactions must be Fannie Mae eligible. Refer to the [9000 Government Guidelines](#) section for FHA and VHA transaction guidelines. Transactions must be rate/term refinances of Flagstar Bank serviced loans.

Any dwelling-unit built on a permanent chassis and attached to a permanent foundation system is a manufactured home for purposes of underwriting. Other factory-built housing, not built on a permanent chassis, such as a modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and continues to be eligible.

Flagstar Bank specifies certain eligibility criteria that apply to any mortgage that is secured by a manufactured home. The manufactured home unit must be permanently affixed to a foundation and must assume the characteristics of site-built housing. The wheels, axles, and trailer hitches must be removed when the unit is placed on its permanent site. All foundations, both perimeter and piers, must have footings that are located below the frost line. If piers are used, they should be placed where the unit manufacturer recommends. If state law requires anchors, they must be provided. Flagstar Bank will not purchase loans secured to single-wide manufactured homes or manufactured homes located within a condominium project.

TRANSACTION REQUIREMENTS

The following criteria must be met:

- Loan must be a rate and term refinance of the Flagstar Bank serviced loan.
- Principal residences and Second Homes only, no investment properties.
- Subordinate financing is not permitted.

Conventional Underwriting Guidelines

- All closing documents must be ordered through Flagstar Bank's Web-Based Closing Documents (WBCD) with a fully executed Manufactured Home Rider.
- All manufactured homes must be appraised by a Flagstar approved Appraisal Management Company.
- Manufactured homes that have been deconstructed and moved to another property are not eligible.
- Pricing will be an additional 1.5 discounts points. See current rate sheet for any additional adjustments to pricing. Temporary buy-downs are not eligible.

APPRAISAL AND DOCUMENTATION REQUIREMENTS

A manufactured home must be a one-family dwelling-unit that assumes the characteristics of site-built housing and is legally classified as real property. The purchase, conveyance and financing, or refinancing, of the land and the manufactured home, which must be evidenced by a valid and enforceable first lien mortgage or deed of trust that is recorded in the land records, must represent a single real estate transaction under applicable state law. A combination chattel and real estate mortgage is not acceptable.

Visit the [Fannie Mae website](#), Titling Manufactured Housing for state-specific guidelines.

The appraiser must state the subject property is taxed as Real Property or if the property is new construction, the title company must supply a statement that the subject property will be taxed as Real Property. An ALTA 7 endorsement, manufactured housing endorsement, must accompany all title work for a manufactured home. This endorsement should ensure that the land described in the policy as the insured property includes the manufactured housing-unit located on the land at the date of the policy.

Flagstar Bank underwriting department requires complete title work prior to closing to be reviewed by Underwriting on all manufactured home transactions, in addition to a copy of the homeowners' insurance policy showing the dwelling coverage equal to at least the mortgage balance or replacement cost new generated by the appraiser.

ADDITIONAL WARRANTIES

- The financing must be evidenced by a mortgage or deed of trust recorded in the land records. A combination of a chattel and real estate mortgage is not acceptable.
- The manufactured home must be built in compliance with the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976, as amended and in force at the time the home is manufactured, and that appear in HUD regulations 24 C.F.R. Part 3280. Compliance with these standards will be evidenced by the presence of a HUD Data Plate. The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. In addition to the data required by Fannie Mae, the data plate includes pertinent information about the unit including a list of factory-installed equipment. The HUD Certification Label is a metal plate, sometimes referred to as a HUD seal or tag, located on the exterior of each section of the home. Flagstar Bank will not accept any manufactured home built before 1976.
- The manufactured home must be permanently affixed to a foundation system that is appropriate for soil conditions for the site and is designed to meet local and state codes.

Conventional Underwriting Guidelines

- The manufactured home certificate of title must be surrendered in all non-title holding states. For title holding states, the certificate of title must be perfected with Flagstar Bank as the sole lien holder.
- The mortgage amount cannot include the financing of furniture, mortgage life insurance or any other form of insurance, other than hazard, flood, mortgage, and title insurance. However, the financing of kitchen and laundry appliances and carpeting may be included in the mortgage.
- The borrower must sign a written statement acknowledging his or her intent that the unit is a fixture and part of the real property securing the mortgage.
- The manufactured home must be permanently connected to a septic tank or sewage system and to other utilities in accordance with local and state requirements.
- Property is zoned 1 to 4-unit, residential
- The manufactured home is a structure that is built on a permanent chassis.
- The manufactured home must have a pitched roof with overhang. The roof covering must be standard composition shingle, asphalt or fiberglass, or better.
- If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community owned and maintained street, then it must be situated on a street that is community owned and maintain or privately owned and maintained. There must be adequate vehicular access and there must be an adequate and legally enforceable agreement for vehicular access and maintenance.
- The appraiser must also include in the appraisal report the manufacturer's name, the model name, year of manufacture, and the serial number for the subject property. This information can be verified by reviewing the Data Plate/Compliance Certificate that is located inside the manufactured home.
- The appraiser must address both the marketability and comparability of a manufactured home by using comparable sales of similar manufactured homes. If at least three comparable sales of manufactured homes are not available, the appraiser may use either site-built housing or a different type of factory-built housing as one of the comparable sales. When that is the case, the appraiser must use at least two comparable sales of similar manufactured homes, explaining why site-built housing or a different type of factory-built housing is being used for the one comparable sale and make, and support, appropriate adjustments in the appraisal report. If the appraiser is unable to fund two comparable sales of similar manufactured homes, the mortgage is not eligible for delivery to us since the market value of the property cannot be adequately measured and supported.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of a factory-built home, although this type of information may be included as additional supporting documentation.
- The mortgage must covered under a standard real estate title insurance policy that covers the manufactured home as part of the real property that secures the mortgage. This is evidenced by an ALTA 7 endorsement, or any other endorsements required in the applicable jurisdiction for manufactured homes that are treated as real estate. A copy of the preliminary title commitment must be reviewed by underwriting prior to closing.
- The appraisal must be performed on form 1004C. Form 70B is not acceptable.
- The appraiser must have been provided with a copy of the executed copy of contract for sale of the manufactured home and land or if the manufactured home and land are being purchased separately, the executed contract for each. If the manufactured home is new, the appraiser must be provided with a copy of the invoice. The appraiser must provide his or her analysis in the appraisal report.

- Mortgages secured by manufactured homes located on leasehold estates or condominium projects are ineligible.
- The appraisal must contain at least two manufactured home comparables or else the loan is ineligible.
- All loans must close with a fully executed Manufactured Home Rider.
- Loans requiring private mortgage Insurance must have a minimum of 900 square feet.
- Manufactured homes that require flood insurance must have a separate flood policy.
- Homeowner/Mobile policies that include flood under one policy are not acceptable under any circumstances when flood insurance is required. This will not meet investor requirements of NFIP Cancellation/Nullification Provisions. A separate flood policy is required.
- Manufactured homes in New Jersey constructed prior to 1985 are ineligible.

MODULAR, PREFABRICATED, PANELIZED, OR SECTIONAL HOUSING ELIGIBILITY – FANNIE MAE

MODULAR HOMES

Fannie Mae purchases loans secured by modular homes built in accordance with the Uniform Building Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed.

PREFABRICATED, PANELIZED, AND SECTIONAL HOMES

Loans secured by prefabricated, panelized, or sectional housing are eligible for purchase. These properties do not have to satisfy 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 to local building codes in the area in which it will be located.

MODULAR, PREFABRICATED, PANELIZED, OR SECTIONAL HOUSING REQUIREMENTS

Factory-built housing such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the guidelines for one-unit properties. These types of properties must

- be built of the same quality of materials as and assume the characteristics of site-built housing,
- be legally classified as real property, and
- conform to all local building codes in the jurisdiction in which they are permanently located.

The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records, and must represent a single real estate transaction under applicable state law. The lender is responsible for perfecting the real estate title and obtaining any needed title endorsements before selling the loan to Fannie Mae when a unit is titled as personal property similarly to manufactured homes.

All factory-built units must be permanently attached to a foundation that meets the standards for local building codes where the unit will be placed and in accordance with the recommendations prescribed by the unit's manufacturer (when applicable). If the unit had axles, wheels, tow hitch, or other hardware to facilitate ease of transportation to the site, the lender is responsible for ensuring that all such hardware is removed prior to selling the loan to Fannie Mae.

Fannie Mae affords modular, prefabricated, panelized, or sectional housing homes the same treatment as site-built housing. Therefore, Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction details.

MODULAR CONSTRUCTION TECHNIQUES ON MULTI-UNIT BUILDINGS

Multi-unit buildings such as condos, co-ops, and townhomes may be constructed, in whole or in part, through the use of modular construction techniques. All buildings must conform to local building codes in the jurisdiction in which they are permanently located. Units in these buildings are provided the same treatment as units in multi-unit buildings constructed with site-built techniques.

MIXED-USE PROPERTIES

For both Fannie Mae and Freddie Mac we will accept mixed-use properties, e.g., beauty shops, doctor's office, small grocery, etc., as long as the following guidelines are met:

- Property must be a 1-unit property that the borrower occupies as his or her principal residence
- The mix-use of the property must represent a legally permissible use of the property under local zoning requirements
- The borrowers must be both the owner and the operator of the business
- The property must be primarily residential in nature
- The market value of the property must be primarily a function of its residential characteristics, rather than the business use or any special business use modifications that were made.
- The mortgaged premises must be residential. We do not purchase mortgages secured by vacant land or property used primarily for agriculture, farming, or commercial enterprise.

MULTIPLE PARCELS UNDER ONE MORTGAGE

FANNIE MAE

When the security property consists of more than one parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other, unless they comply with the following exception:
 - Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot, e.g., waterfront property where the parcel without the residence provides access to the water. Evidence that the lot is non-buildable must be provided.
 - Each parcel must have the same basic zoning, e.g., residential, agricultural
 - The entire property may contain only one dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
 - The mortgage must be a valid first lien that covers each parcel.

FREDDIE MAC

When the security property consists of more than one parcel of real estate, the parcels must meet the following conditions:

- Each parcel must be conveyed in its entirety
- Parcels must be adjoined to the other
- Each parcel must be zoned as residential
- Only one parcel may have a dwelling-unit; limited non-residential improvements such as a garage are acceptable

- The mortgage must be a valid first lien on each parcel

Flagstar may amend the security instrument to include the conditions under which the adjoining lot subsequently may be released as security for the mortgage. One such condition is that the outstanding unpaid principal balance of the mortgage must have the same, or better, relationship to the current appraised value of the property after release of the adjoining lot that the original mortgage amount had to the original value of the property at the time we purchased or securitized the mortgage. This can be the result of property appreciation or the borrower making an additional principal payment to reduce the mortgage balance to the required level.

NATURAL DISASTERS

When there are instances of inclement weather, such as tornados, flooding, etc. it is the responsibility of the correspondent or broker to warrant that the subject property is in an acceptable condition. Appraisals dated prior to the date of a natural disaster require a re-inspection with photos prior to delivery to Flagstar Bank.

OIL, GAS, WATER, AND MINERAL RIGHTS

APPRAISAL REQUIREMENTS

If upon inspection of the property the appraiser observes active drilling, fracking, etc., the appraiser must comment that the active drilling, fracking, etc. does not materially alter the contour of the property, the usefulness, or value as of the date of the appraisal. If upon inspection of the property the appraiser does not observe any active drilling, fracking, etc., no action is required by the appraiser.

FINAL TITLE POLICY REQUIREMENTS

The final title policy must include Environmental Protection, ALTA 9 – Restrictions, Encroachments, Minerals – Loan Policy.

OIL TANKS

Specific to oil tanks located on a residential property, buried or not buried, Flagstar Bank requires properties with an oil tank to meet the following guidelines:

- The appraiser must state oil tanks are common to the area and have no adverse effect on marketability.
- The appraiser must make a statement that he/she detected no evidence of leakage from the oil tank.

PLANNED UNIT DEVELOPMENTS (PUD)

For both Fannie Mae and Freddie Mac a planned unit development (PUD) is a development that has all of the following characteristics:

- The individual unit owners own or have a leasehold interest in a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
- The development is administered by a homeowners' association that owns or has a leasehold interest in and is obligated to maintain property and improvements within the development, i.e., greenbelts, recreation facilities, and parking areas, for the common use and benefit of the unit owners.
- The unit owners have an automatic, non-severable interest in the homeowners' association and pay mandatory assessments.
- Zoning is not a basis for classifying a project or subdivision as a PUD.

- Cannot be an ineligible project. Please refer to the [Ineligible Projects](#) section.

LIABILITY INSURANCE

Liability Insurance is not required for Type E Projects. Liability Insurance will not be required on Type F Projects if common areas consist of only minimal amenities, such as entrance gates, parking areas, greenbelts and grass median strips and does not include any structural improvements or amenities such as recreational facilities and retention ponds. This is not required when the product is a Fannie Mae DU Refi Plus II – Same Servicer, Fannie Mae DU Refi Plus II – Other Servicer or Fannie Mae DU Refi Plus II – Value Plus.

FLOOD INSURANCE

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

For the purposes of these guidelines, a condominium is not considered a PUD. If a condominium unit is located in a PUD, the lender must comply with all condominium requirements and warranties. If the PUD unit or any PUD common property is on a leasehold estate, the project must comply with leasehold estate requirements.

PRESALE

Fannie Mae

Fannie Mae makes a distinction between an established and a new project as follows:

- A Type E PUD Project is an established planned unit development project in which control of the owners' association has been turned over to the unit purchasers. Standard property guidelines apply to an established PUD property.
- A Type F PUD Project is a new planned unit development project, or in some cases, an existing PUD project that has not had control of the owners' association turned over to the unit purchasers:
 - The project cannot have been created by the conversion of existing buildings into a PUD.
 - The project must not include any multi-dwelling units.

A review of the project is not required for a Type E or Type F if the subject property is a detached dwelling.

Freddie Mac

Freddie Mac has no pre-sale or other additional guidelines pertaining to the nature of the PUD project.

FLOOD INSURANCE

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

PRIVATE WELLS

Subject properties with a water source provided by a shared well, with the well located on another property must be approved by management. A recorded shared well agreement and title commitment must be submitted for review. The shared well agreement must provide irrevocable water rights to the subject property.

REO PROPERTIES

UNEXPIRED RIGHTS OF REDEMPTION

Flagstar will not approve and/or purchase any loan having an unexpired right of redemption unless the purchase agreement, title, and appraisal all show the same seller who is the original mortgagor.

- Title may show *lis pendens* notices from the bank or mortgagee
- Purchase contract may indicate a short sale

REPAIR ESCROWS

REPAIR ESCROW LIMITS

- Estimated cost of improvements must not exceed the lesser of 10% of the value of the property or \$15,000.
- Total escrow to be 120% times the amount of approved repairs. However, if the builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.

PRODUCTS AND LOAN-TO-VALUE

- Fannie Mae programs only
- Owner occupied 1 to 2-unit 95% LTV/CLTV limit
- Second home 90% LTV/CLTV limit
- 1-unit investment property 75% LTV/CLTV limit
- Desktop Underwriter *Approve* response
- Manufactured Homes are not eligible
- MI available from MGIC, Genworth, Radian, and Essent
- No major repairs between November 15 and March 15 in cold weather states. Weather related repairs are only eligible for new construction
- Roof repairs are not eligible to be escrowed
- Interior repairs are not eligible to be escrowed

ACCEPTABLE WEATHER RELATED ITEMS NEW CONSTRUCTION ONLY

- Driveway
- Sidewalk
- Landscaping
- Sprinklers
- Sod

UNACCEPTABLE REPAIRS FOR NEW OR EXISTING CONSTRUCTION

The following are some examples of items that are not eligible for an escrow holdback, but are not limited to:

- Plumbing, electrical, septic, or HVAC systems not fully functional
- Kitchen not fully functional
- Roofing issues including leaks past or present unless certified as having been repaired
- Foundation cracks or settling including leaks past or present unless certified as having been repaired

- Water in basement
- Siding or fascia along eaves that is missing or has significant damage
- Mold of any significance

REPAIR ESCROW DETERMINATION

- Improvements must not affect livability, soundness or structural integrity of the property.
- Seller funded escrow: Loan to value based on the lower of purchase price or as repaired value.
- After repairs are completed, any funds remaining that were contributed by the property seller must be applied to the outstanding principal balance.
- Borrow funded escrow: LTV based on the lower of purchase price or as is appraised value.
- Funds contributed by the borrower from his/her own funds may be returned to the borrower.
- Escrow holdback for pools must be part of the builder contract, the appraised value must include the pool, subject to completion. The cost of the pool cannot exceed 10% of the “as completed” value of the property. For loans that have a separate sales contract for construction of the pool by a third party, refer to *Fannie Mae HomeStyle Renovation*, [Doc. #5719](#).

Establish an escrow for repair equal to 120% of the contract estimate and manage the completion of the repairs, to be completed within 60 days of closing. Cost of repairs will be supported by the following:

- Two bids obtained. The escrow holdback is based on the higher of the two estimates.
- In lieu of two estimates, a contract signed by the builder and the borrower may be considered. If the builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
- Repair escrow is an overage above the loan amount and does not factor into the max loan or LTV.
- All escrowed repairs must be completed within 60 days.

UNDERWRITER PROCESS STEPS

- Provide two bids or a builder contract.
- All repair escrows to be held by Flagstar Bank.
- Loan to have the full amount of the escrow holdback added to the fee screen as Misc. Fee line 1319 (escrow holdback).
- Loan will have the following conditions at closing:
 - Borrower to sign the *Flagstar Escrow Holdback Agreement*, [Doc. #3655](#). A repair escrow to be established for \$_____ for the following repairs:_____
 - Final inspection by the appraiser, with photos, to confirm completion of the following repairs:_____. Repairs to be completed within 60 days of closing date. For repairs involving mechanical work such as electrical, plumbing or heating, proof of permit required prior to escrow disbursement.

All repair escrows require underwriting manager approval.

DETACHED CONDOMINIUMS

A detached condo is defined as any condo unit that is completely detached from other condo units in the project. The unit may share no adjoining walls, ceilings, floors, or other attached architectural elements (such as breezeways or garages) with any neighboring unit. A detached condo unit may be in a project

Conventional Underwriting Guidelines

consisting solely of detached units or in a development containing a mixture of attached and detached units. Site condos in which the unit owner owns the detached condo unit and the land upon which the unit is built are a type of detached condo.

A project review is not required, but the project must meet the following requirements.

- Mortgage is secured by a single detached unit in a condominium project
- The subject is a detached unit and does not include manufactured housing units.
- Appraisals for units in condominium project that consist solely of detached dwellings may be documented on Form 1004 or 1073.
- The subject is covered by a Title Insurance Policy that includes an ALTA Form 4, condominium endorsement, or its equivalent.
- The property is covered by hazard, flood, liability, and fidelity insurance
 - Fannie Mae - Evidence of liability insurance is not required if the projects common elements consist of greenbelts and contains no structural improvements or amenities such as playgrounds or retention ponds and does not contain any commercial space
 - Freddie Mac - It is not required to determine the existence or adequacy of the project liability insurance and/or the fidelity or employee dishonesty insurance for a detached condominium unit reviewed under the detached condominium projects review type.
- Unit holders have an automatic non-severable interest in the homeowners' association and pay mandatory assessments
- When using Loan Product Advisor or Desktop Underwriter, the property type must be submitted as a Detached Condominium.
- A condo rider will be required at closing
- Fannie Mae – SFC 588 must be applied to the loan
- Freddie Mac – SFC H04 must be applied to the loan

CONVENTIONAL UNDERWRITING OVERLAYS

Bulk correspondent transactions are not subject to Flagstar's underwriting overlays except in the following categories: credit score, LTV/CLTV/HCLTV, purpose, property type, and AUS response.

CREDIT HISTORY

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

- Two tradelines with a minimum 12 month history, or
- One tradeline with a minimum 12 month history and a 12 month housing reference evidenced by cancelled checks.

EMPLOYED BY FAMILY

Two years' tax returns are required regardless of the AUS response.

MANUFACTURED HOMES

- Manufactured homes are only allowed on Flagstar-to-Flagstar refinances
- Subordinate financing is not allowed
- All closing documents must be ordered through Flagstar Bank's Web-Based Closing Documents (WBCD)

- Manufactured homes that have been deconstructed and moved to another property are not eligible

NET TANGIBLE BENEFIT

Conforming and High Balance/Super Conforming Rate and Term Refinance transactions in the following states require the *Net Tangible Benefit Worksheet*, [Doc. #3920](#) or state specific form:

- Borrower's total mortgage payment must decrease by at least 4%, including mortgage insurance, if applicable
- The number of months required to recapture the borrower-paid costs shown in sections A, B, C, & E of the Loan Estimate/Closing Disclosure may not exceed 48 months

State		
Alaska	Maryland	Rhode Island
Arkansas	Massachusetts	South Carolina
California	Minnesota	Tennessee
Colorado	New Mexico	Virginia
Connecticut	New York	West Virginia
Florida	North Carolina	Wisconsin
Georgia	Ohio	
Illinois	Oklahoma	

OCCUPANCY

If the borrower applies for an owner occupied transaction after closing on a previous owner occupied transaction with Flagstar on a different property in the last 12 months, the new transaction will be ineligible. This guideline will not apply if the previous property has been sold or refinanced as a non-owner occupied residence. For owner occupied transactions, the borrower warrants he or she will occupy the property for at least 12 months.

POWER OF ATTORNEY

- Purchase or rate/term refinance transaction only.
- Not allowed on cash-out transactions. Freddie Mac allows the use of a POA Fannie Mae does not. However, no exceptions regardless of targeted investor.
- Not allowed on investment transactions. Freddie Mac allows the use of a POA Fannie Mae does not.