



DU Conforming Fixed & ARM and High-Balance Fixed & ARM

PURCHASE & RATE/TERM REFINANCE		
PRIMARY RESIDENCE		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	97% ^{1,2}	95% ²
2-4 Units	95% ^{2,3}	95% ^{2,3}
SECOND HOME		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	90% ²	90% ²
INVESTMENT PURCHASE		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	85% ²	85% ²
2-4 Units	75%	75%
INVESTMENT RATE/TERM REFINANCE		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1-4 Units	75%	75%

CASH-OUT REFINANCE		
PRIMARY RESIDENCE		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	80%	80%
2-4 Units	75%	75%
SECOND HOME		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	75%	75%
INVESTMENT		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	75%	75%
2-4 Units	70%	70%



NOTES – Specific to Certain Transactions

¹ **LTV, CLTV, or HCLTV Ratios Greater than 95%:** These transactions are not permitted for high-balance loans or loans with a non-occupant co-borrower. Must be one-unit principal residence. At least one (1) borrower on the loan must have a credit score. For purchase transactions, at least one (1) borrower must be a first-time home buyer. For limited cash-out refinances, Fannie Mae must be the owner of the existing mortgage. Reserves requirement will be determined by DU. All other standard Selling Guide policies apply.

² Non-California properties require impounds if LTV > 80%

³ **LTV, CLTV, or HCLTV Ratios for High-Balance 2-4 Unit Properties:**

- 2 unit: $\leq 85\%$
- 3-4 unit: $\leq 75\%$

FIXED RATE PROGRAM DESCRIPTION

The DU Agency Fixed product provides for a fixed interest rate and level payments for the life of the loan. Loans may only be originated in first lien position.

PRODUCT TERM

10 Year Fixed Rate
15 Year Fixed Rate
20 Year Fixed Rate
25 Year Fixed Rate
30 Year Fixed Rate

ARM PROGRAM DESCRIPTION

A variable rate mortgage product – without negative amortization – whereby the interest rate and payment is adjusted in accordance with a specified index.

- **5/6, 7/6, & 10/6:** A fixed-to-adjustable rate product that provides for an initial fixed rate period and a variable rate with a 6 month interest rate and payment adjustments thereafter.

PRODUCTS & TERMS

Product	Term	Initial Fixed Rate Period	Rate/Adjustment After Initial Fixed Rate Period
5/6 SOFR ARM	30 year	5 years	6 month
7/6 SOFR ARM	30 year	7 years	6 month
10/6 SOFR ARM	30 year	10 years	6 month



HIGH-BALANCE PROGRAM DESCRIPTION

This is a full documentation program to be used for the origination of High-Balance loans available as a result of the Home Economic Recovery Act (HERA) of 2008 for Desktop Underwriter® (DU®) underwritten loans. The new loan amounts are applicable to high cost areas only as determined by the Federal Housing Finance Agency (FHFA). The loan amounts must be greater than the current maximum Agency Conforming Loan Limits and may not exceed the High Cost Loan Limit established by FHFA.

This fact sheet covers loans that receive an "Approved/Eligible" recommendation from DU. Fannie Mae has aligned the eligibility of high-balance mortgage loan with Fannie Mae's standard eligibility requirements with LTV, CLTV, and HCLTV ratios up to a maximum of 95%. High-balance loans must meet all standard Fannie Mae Eligibility and underwriting requirements, as outlined in Fannie Mae Selling Guide. The following guidelines apply to all high-balance mortgage loans:

- Loans must be conventional first-lien mortgages only
- Loans must meet the LTV, CLTV, and HCLTV ratios as outlined in eligibility matrix
- All borrowers must have a credit score
- All loans must be underwritten through DU
- Exceptions to policy are not permitted

PROGRAM DETAILS

QM Status	<ul style="list-style-type: none">• Standard QM requirements apply
Overview	<ul style="list-style-type: none">• Min \$75,000.• LTV greater than 97% is not allowed.• Max FNMA conforming loan limit (loan limit table below)• Min FICO 620 score• Max DTI as determined by DU• Subordinate financing is allowed• Higher-Priced Mortgage loans are not allowed• Property Inspection Waiver (PIW) is determined by DU Finding.• Manual underwriting is not allowed. All conventional loans must receive an AUS Approval.• Maximum four (4) borrowers per loan• Maximum of 4 concurrent loans from same borrower.• Maximum 2 Self-Employed Businesses for each borrower. (AGNP program code required for loans w/ more than 2 self-employed businesses)• Extenuating Circumstances: Not permitted; all loans must meet the regular seasoning period for financial mismanagement.• Business 4506-C must be obtained in addition to the personal 4506-C.• Maximum Compensation to Broker not to exceed \$30k.• Single-Closing Transactions for Construction-to-Permanent financing not allowed
Eligible States	All MCFI approved States



Program Codes	Fixed Period		
	Regular Conforming	Program	Code
		Mega Agency X	MAX30, MAX25, MAX20, MAX15, MAX10
		DU/LP AGENCY FIXED	AGN30, AGN25, AGN20, AGN15 & AGN10
			AGNP30, AGNP25, AGNP20, AGNP15 & AGNP10
	High-Balance	Mega Agency X	MAXHB30, MAXHB25, MAXHB20, MAXHB15
		DU/LP AGENCY FIXED	HB30, HB25, HB20, & HB15
			HBP30, HBP25, HBP20, & HBP15
	Adjustable Rate Mortgage		
	Regular Conforming	CONF5/6, CONF7/6, CONF10/6	
High-Balance	HB5/6, HB7/6 & HB10/6		
High LTV Conforming	HLTVC7/6, HLTVC10/6		
High LTV High-Balance	HLTVB7/6 & HLTVB10/6		
Mortgage Insurance	Standard MI coverage is required on all loans unless stated otherwise in the specific program description. Loans with MI may have higher FICO requirements than what is required by DU.		
	The LTV reflected here is for MI purposes only. Refer to the appropriate LTV matrix for the maximum LTV that applies to the occupancy and process selected.		
	LTV	30 Year Term	
	>95% to 97%	35%	
	>90 to ≤95%	30%	
	>85 to ≤90%	25%	
	>80 to ≤85%	12%	
Qualifying Rate	<ul style="list-style-type: none"><u>5/6 SOFR</u>: Greater of fully indexed rate or note rate plus 2%<u>7/6 & 10/6 SOFR</u>: Note rate. Exception: Greater of the note rate or the fully indexed rate for loans that are higher-priced mortgage loans or higher-priced covered transactions under Regulation Z. If the fully indexed rate is higher, the loan is ineligible.		
Interested Party Contributions	Occupancy	LTV/CLTV	Max Contribution
	Primary Residence or Second Home	≤75%	9%
		>75 to ≤90%	6%
		Greater than 90%	3%
Investment	All CLTV ratios	2%	



Note Rate Limitations	<ul style="list-style-type: none">5/6 SOFR: Note rates may not be lower than 2% below the fully indexed rate7/6 & 10/6 SOFR: Note rates may not be lower than 3% below the fully indexed rate				
Rate Caps & Margins	Product	Interest Rate Caps			Margin
		First	Subsequent	Life	
	5/6 ARM	2%	1%	5%	3.00%
7/6 & 10/6 ARM	5%	1%	5%		
Interest Rate & Payment Change Dates	The interest rate and payment adjusts every 12 months following the initial fixed rate period.				
Available Markets	<ul style="list-style-type: none">Refer to the Loan Limit Lookup table at https://www.fanniemae.com/singlefamily/loan-limitsUsers are responsible for ensuring that individual mortgage loans do not exceed maximum county loan limits.				
Maximum Loan Amount and County Eligibility	<ul style="list-style-type: none">Refer to the Loan Limit Lookup table on the following link to determine maximum loan amount and county eligibility: https://www.fhfa.gov/DataTools/Downloads/Documents/Conforming-Loan-Limits/FullCountyLoanLimitList2021_HERA-BASED_FINAL_FLAT.xlsxThe maximum High Balance loan amount is based on the property location (by city/county) and the number of units. In addition, High-Balance loan amounts are determined by high cost areas and are above the general conforming loan amounts.				
Minimum Borrower Contribution	<ul style="list-style-type: none">80% or less LTV/CLTV or HCLTV 1-4 principal residence or second home: Minimum borrower contribution from borrower’s own funds is not required. All funds needed to complete the transaction can come from a gift.Greater than 80% LTV/CLTV or HCLTV 1 unit principal residence: Minimum borrower contribution from borrower’s own funds is not required. All funds needed to complete the transaction can come from gift.Greater than 80% LTV/CLTV or HCLTV 2 to 4 unit principal or second home: Borrower must make a 5% minimum borrower contribution from his or her own funds. ¹After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.				

¹ If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.



TRANSACTION TYPES	
Loan Purpose	<ul style="list-style-type: none"> • Purchase • Rate/Term Refinance (aka Limited Cash-Out Refinance) • Cash-Out Refinance
Occupancy Types	<ul style="list-style-type: none"> • Primary Residence • Second Home • Investment Properties <p>Primary Residence: Children wanting to provide housing for parents.</p> <p>If the parent is unable to work or does not have sufficient income to qualify for a mortgage on their own, the parent or legal guardian is considered the owner/occupant.</p> <p>Parent's 1040s and awards letter are required to confirm the parent's income.</p>
Purchase	<p>A purchase money transaction is one in which the proceeds are used to finance the acquisition of and rehabilitation of a property.</p> <p>The minimum borrower contribution requirements for the selected mortgage loan type must be met.</p> <p>Homeownership education may be required per DU findings.</p> <p>Reserves requirements will be determined by DU.</p>
Non-Arm's Length Transactions	<p>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. Fannie Mae allows non-arm's length transactions for the purchase of existing properties unless specifically forbidden for the particular scenario, such as delayed financing. For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, Fannie Mae will only purchase mortgage loans secured by a principal residence. Fannie Mae will not purchase mortgage loans on newly constructed homes secured by a second home or investment property if the borrower has a relationship or business affiliation with the builder, developer, or seller of the property.</p>
Limited Cash-Out Transactions	<p>The transaction is being used to obtain a new first mortgage loan secured by the same property to</p> <ul style="list-style-type: none"> • pay off an existing first mortgage loan (including an existing HELOC in first-lien position); or • for two-closing construction-to-permanent loans, to pay off an existing construction loan and documented construction cost overruns that were incurred outside of the interim construction financing. (These construction cost overruns must be paid directly to the builder at closing.); or • for single-closing construction-to-permanent loans, to pay for construction costs to build the home, which may include paying off an existing lot lien. <p>At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if the lender documents that:</p> <ul style="list-style-type: none"> • the borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of



	<ul style="list-style-type: none">a domestic partnership); orthe property was previously owned by an <i>inter vivos</i> revocable trust and the borrower is the primary beneficiary of the trust.the borrower is currently financially obligated on the loan being paid off but not on the title. This includes loans where the property is currently owned by a limited liability corporation (LLC) that is majority owned or controlled by the borrower(s). Ownership must be transferred into the name of the individual borrower(s).the borrower is paying off an installment land contract that was executed more than 12 months before the date of the loan application. <p>Only subordinate liens used to purchase the property may be paid off and included in the new mortgage.</p> <p>The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).</p>
Refinances to Buy Out An Owner's Interest (Limited Cash Out Transaction)	<p>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.</p> <p>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.</p> <p>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.</p>
Cash- Out Transactions	<p>The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have mortgage lien against it (the borrower owns the property free and clear at the time of refinance).</p> <p>For loans with note dates on and after April 1, 2023, if an existing first mortgage is being paid off through the transaction, it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. This requirement does not apply</p> <ul style="list-style-type: none">➤ to any existing subordinate liens being paid off through the transaction, or➤ when buying out a co-owner pursuant to a legal agreement. <p>Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.</p> <p>At least one borrower must have been on title to the subject property for at least six months prior to the disbursement date of the new loan, unless one of the borrower exceptions apply:</p> <ul style="list-style-type: none">There is no waiting period if the borrower acquired the property through an



	<p>inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).</p> <ul style="list-style-type: none">• The delayed financing requirements are met.• 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))• If the property was owned prior to closing by an <i>inter vivos</i> revocable trust, the time held by the trust may be counted towards meeting the borrower's six month ownership requirement if the borrower is the primary beneficiary of the trust. <p>If the DTI ratio exceeds 45%, six months reserves is required.</p>
Delayed Financing Exception (Cash out Transaction)	<p>Borrowers who purchased the subject property within the past six (6) months (measured from 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.</p> <ol style="list-style-type: none">1. The original purchase transaction was an arms-length transaction.2. For this refinance transaction, the borrower(s) must meet Fannie Mae's borrower eligibility requirements as described in <u>B2-2-01: General Borrower Eligibility Requirements (07/28/2015)</u>. The borrower(s) may have initially purchased the property as one of the following:<ul style="list-style-type: none">○ a natural person;○ an eligible <i>inter vivos</i> revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;○ an eligible land trust when the borrower is the beneficiary of the land trust; or○ an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.3. The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.) The preliminary title search or report must confirm that there are no existing liens on the subject property.4. The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).5. 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 settlement statement 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. Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.6. The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject



	<p>to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).</p> <p>7. All other cash-out refinance eligibility requirements are met. Cash-out pricing is applicable.</p>
Student Loan Cash-Out	<p>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:</p> <ul style="list-style-type: none">• 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 lenders about certain requirements below; however, the lender must confirm the loan meets all the requirements outside of DU.



Student Loan Cash-Out <i>(continue)</i>	<ul style="list-style-type: none">• The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply. (Refer to the LTV matrix on page 1.)• At least one (1) student loan must be paid off with proceeds from the subject transaction with the following criteria:<ul style="list-style-type: none">○ proceeds must be paid directly to the student loan servicer at closing○ at least one (1) borrower must be obligated on the student loan(s) being paid off○ 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:<ul style="list-style-type: none">○ 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.• 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. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations, or apply a principal curtailment.• Unless otherwise stated, all other standard cash-out refinance requirements apply. <p>As noted above, the LLPA is waived for loans that meet the student loan cash-out refinance requirements.</p>
Principal Curtailments	<p>A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. Fannie Mae permits certain curtailments for the following reasons:</p> <ul style="list-style-type: none">• The lender may apply a curtailment to refund the overpayment of fees or charges paid by the borrower, in any amount, in accordance with applicable regulatory requirements• If the borrower receives more cash back than is permitted for limited cash-out refinances, the lender can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash back requirements. The amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount of the subject loan.
Ineligible Transaction Types	<ul style="list-style-type: none">• LTV/CLTV greater than 97%.• Refinance transactions where subject property is listed for sale at the time of disbursement of new mortgage loan• Loans not meeting the credit score, LTV, or loan amount guidelines or erroneous credit data• DU Refer with Caution findings• Loans that were submitted to LP and/or received a Caution or A-Minus recommendation• All products or programs not shown as eligible• Interest Only Products• Any product not listed above as eligible



BORROWER ELIGIBILITY	
Eligible Borrowers	<p>Borrower(s) must be a natural person(s) and have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for the borrower.</p> <p>Exceptions to the requirement that borrower(s) be natural person(s) are:</p> <ul style="list-style-type: none">• Inter-vivos revocable trusts
Deferred Action for Children Arrivals (DACA)	<p>Employment Authorization Document (EAD)</p> <p>Borrower must have a current EAD card C33 and if the EAD card expires within one year, then borrower must provide a previous EAD renewal.</p> <p>A current (unexpired) EAD issued by USCIS may be provided in lieu of a Visa.</p> <p>If the EAD will expire within one year, one of the following must be provided:</p> <ul style="list-style-type: none">• Documentation of one previous EAD renewal.• If there are no prior EAD renewals, documentation from the USCIS confirming the likelihood of renewal. <p>All standards for determining stable monthly income, adequate credit history, and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are nonpermanent resident aliens.</p>
VISA & EAD	<ul style="list-style-type: none">• See VISA & EAD Chart for other program overlays Broker Resources – MCFUNDING.COM• If VISA or EAD Card will expire within 6 months, evidence of previous renewal is required.
Non-Occupant Co-Borrower	<p>Per DU / FNMA Policy: Allows blended ratio</p> <p>Non-Occupant co-borrowers not allowed when LTV/CLTV is > 95%</p> <p>Non-Occupant co-borrowers may not be an interested party to the transaction (for example, the builder, seller or broker)</p>
Ineligible Borrowers	<ul style="list-style-type: none">• Foreign Nationals• Persons with Diplomatic Immunity



INCOME	
Debt-to-Income	<ul style="list-style-type: none"> • DU determines the maximum allowable DTI ratio based on the overall risk assessment of the loan casefile. • The mortgage insurance company may have lower debt to income ratio requirements (refer to the Mortgage Insurance section of this fact sheet for details as well as the individual MI companies' guidelines).
General Income Documentation	<p>General Income Documentation Requirements DU indicates the minimum income verification required. However, the level of documentation may not be adequate for every borrower and every situation. Mega will determine whether additional documentation is warranted.</p> <p>Base Pay (Salary or Hourly) Income</p> <ul style="list-style-type: none"> • WVOE only income document is acceptable per DU findings if the WVOE is from The Work Number. • The borrower's recent paystub and IRS W-2 forms as per DU findings. <p>Bonus and Overtime Income Borrowers relying on overtime or bonus income for qualifying purposes must have a history of no less than 12 months to be considered stable.</p> <ul style="list-style-type: none"> • A completed Written Verification of Employment (WVOE), or • The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. <p>Commission Income A minimum history of two (2) years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.</p> <ul style="list-style-type: none"> - A completed WVOE (Form 1005) - The borrower's most recent paystub and IRS W-2 forms covering the most recent two (2) year period. <p>Secondary Employment Income Verification of a minimum history of two (2) years of uninterrupted secondary employment income is recommended. However, income that has been received for a shorter period of time (no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.</p> <ul style="list-style-type: none"> • When the second job is not from self-employment, DU will require the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
Self-Employed Borrowers	<p>Length of Self-Employment</p> <p>The general requirement is a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received.</p> <p>However, the income of a person who has less than a two-year history of self-employment may be considered, as long as the borrower's most recent signed personal and business federal income tax returns reflect a full year (12 months) of self employment income from the current business. The loan file must also contain documentation to support the history of receipt of prior income at the same (or greater) level and</p> <ul style="list-style-type: none"> • in a field that provides the same products or services as the current business, or • in an occupation in which they had similar responsibilities to those undertaken in connection with the current business. <p>In such cases, careful consideration must be given to the nature of the borrower's level of experience, and the amount of debt the business has acquired.</p>



Self-Employed Borrowers (Continued)

Verification of Income

Self-employed borrower's employment and income may be verified by obtaining the borrower copies of their signed federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS for the past two years (with all applicable schedules attached).

One year of personal and business tax returns may be provided if the following requirements are met:

- the business from which the borrower is using self-employed income must have been in existence for five years as reflected on the Form 1003, and the borrower has had an ownership share of 25% or more for the past five years consecutively, and
 - = for partnerships, S corporations and corporations, the federal income tax return for the business must support the information reflected on the Form 1003. If the business was in existence prior to the borrower having 25% or ownership, then the leader must demonstrate the borrower has had 25% or more ownership for at least five years consecutively.
 - = for sole proprietorships, the individual federal tax return and any other documentation or information received must support the information reflected on the Form 1003 for the number of years the business has been in existence.
- all businesses are assessed separately for the five-years in existence benchmark and the number of years of personal and federal income tax returns required could differ when there are multiple self-employment income sources.
- Fannie Mae's Cash Flow Analysis (Form 1084) or any other type of cash flow analysis form that applies the same principles must be completed. A copy of the written analysis must be included in the permanent loan file.

Note: Alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the Form 1003 and is supported by the most recent year tax returns. Documentation must be obtained through a reliable source, such as an IRS-Issued Employer Identification Number Confirmation letter, business license, articles of incorporation, or partnership agreements.

When two years of signed individual federal tax returns are provided, the requirement for business tax returns may be waived if:

- the borrower is using personal funds to pay down payment and closing costs and satisfy applicable reserve requirements,
- the borrower has been self-employed in the same business for at least five years (requirements noted above), and
- the borrower's individual tax returns show an increase in self-employment income over the past two years from the respective business



Variable Income	<p>Examples of less predictable income sources include hourly workers with fluctuating hours (based on hourly rate of pay and where the number of hours fluctuate each pay period), or employment that is subject to time limits, such as contract employees or tradesmen. Additional fluctuating income includes commissions, bonuses, and overtime pay.</p> <p><i>History of Receipt</i></p> <p>Two or more years of receipt of a particular type of variable income is recommended (may be from a combination of current and previous employment); however, variable income that has been received for 12 to 24 months may be considered as acceptable income, if the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history. <u>No less than 12 months of variable earning must be received regardless if the income is derived a primary and/or secondary source of income.</u></p> <p><i>Frequency of Payment</i></p> <p>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. Examples include, but are not limited to:</p> <ul style="list-style-type: none">• If a borrower is paid an annual bonus the amount should be divided by 12 months.• If a borrower is paid overtime the differences between current period overtime and year-to-date earnings should be reviewed and document the analysis before using the income amount in the trending analysis. <p><i>Income Trending</i></p> <p>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, written verification of employment, or tax returns.</p> <ul style="list-style-type: none">• 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.<ul style="list-style-type: none">o Freddie Mac - If the decline between prior year and year to date exceeds 10%, documentation may be needed to determine the reason for the decline and support stabilization.• In some cases, despite an ordinarily acceptable history of receipt MCFI may elect not to allow a borrower to be qualified using variable pay from overtime, commission, or bonus as a function of topical media news indicating the borrower is employed in a financially troubled company or industry.• Projected variable income that has no historical basis is not an acceptable source of income.
Alimony, Child Support, or Separate Maintenance	<p>Document that alimony, child support, or separate maintenance will continue to be paid for at least three years after the date of the mortgage application, as verified by one of the following:</p> <ul style="list-style-type: none">• A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates the monthly payment and states the amount of the award and the period of time over which it will be received. Note: If a borrower who is separated does not have a separation agreement that



Alimony, Child Support, or Separate Maintenance (continued)	<p>specifies alimony or child support payments, any proposed or voluntary payments should not be consider as income.</p> <ul style="list-style-type: none">Any other type of written legal agreement or court decree describing the payment terms.Documentation that verifies any applicable state law that mandates alimony, child support, or separate maintenance payments, which must specify the conditions under which the payments must be made. <p>Check for 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.</p> <p>Document no less than six months of the borrower's most recent regular receipt of the full payment.</p> <p>Review the payment history to determine its suitability as stable qualifying income. 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. In addition, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for the purpose of qualifying the borrower.</p>
Automobile Allowance	<p>For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two years. The full amount of the allowance must be added to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.</p>
Boarder Income	<p>Income from boarders in the borrower's principal residence or second home is not considered acceptable stable income with the exception of the following:</p> <ul style="list-style-type: none">When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage loan. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.The HomeReady mortgage eligibility requirements include an additional exception. See DU HomeReady Guidelines. <p>Verification of Income from Boarders</p> <ul style="list-style-type: none">Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address.Obtain documentation of the boarder's rental payments for the most recent 12 months.
Capital Gains Income	<p>Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements.</p> <ul style="list-style-type: none">Document a two-year history of capital gains income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.Develop an average income from the last two years (according to the Variable Income section of B3-3.1-01, General Income Information), and



Capital Gains Income <i>(continued)</i>	<p>use the averaged amount as part of the borrower's qualifying income as long as the borrower provides current evidence that they own additional property or assets that can be sold if extra income is needed to make future mortgage loan payments.</p> <p>Note: Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring. Due to the nature of this income, current receipt of the income is not required. However, documentation of the asset ownership must be in compliance with the Allowable Age of Credit Documents policy.</p>
Employment Offers or Contracts	<p>This option is limited to loans that meet the following criteria:</p> <ul style="list-style-type: none">• 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 base income.• the borrower had previous employment in same line of business with same level of income. <p>The employment offer or contract must</p> <ul style="list-style-type: none">• 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 lender 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. <p>Also note that for a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union may provide the executed employment offer or contract for future employment.</p> <p>In addition to the amount of reserves required by DU or for the transaction, one of the following must be documented:</p> <ul style="list-style-type: none">• Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or• Financial resources 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. For calculation purposes, consider any portion of a month as a full month. <p>Financial resources may include:</p> <ul style="list-style-type: none">○ financial reserves, and○ current income.



Employment Offers or Contracts (continued)	<p>Current income refers to net 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. For this purpose, the amount of income the borrower is expected to receive between the note date and the employment start date may be used. If the current income is not being used or is not eligible to be used for qualifying purposes, it can be documented using income documentation, such as a paystub, but a verification of employment is not required.</p> <p>The borrower's start date must be no earlier than 30 days prior to the note date or no later than 90 days after the note date.</p>
Foreign Income	<p>Foreign income is income that is earned by a borrower who is employed by 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.</p> <ul style="list-style-type: none">• Copies of signed federal income tax returns for the most recent two years that include foreign income.• Must satisfy the standard documentation requirements based on the source and type of income.• All documents of a foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.• All income must be translated to U.S. dollars.
Foster-Care Income	<p>Income received from a state- or county-sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met.</p> <ul style="list-style-type: none">• Verify the foster-care income with letters of verification from the organizations providing the income.• Document that the borrower has a two-year history of providing foster-care services. If the borrower has not been receiving this type of income for two full years, the income may still be counted as stable income if:<ul style="list-style-type: none">➤ the borrower has at least a 12-month history of providing foster-care services, and➤ the income does not represent more than 30% of the total gross income that is used to qualify for the mortgage loan.
Housing or Parsonage Allowance	<p>A housing or parsonage allowance may be considered qualifying income if there is documentation that it 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.</p> <p>Note: This requirement does not apply to military quarters' allowance.</p>
Interest and Dividend Income	<p>Verify the borrower's ownership of the assets on which the interest or dividend income was earned.</p> <p>Document a two-year history of the income, as verified by</p> <ul style="list-style-type: none">• copies of the borrower's signed federal income tax returns, or• copies of account statements <p>Develop an average of the income received for the most recent two years. Refer to the Variable Income section for additional information.</p>



	Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.
Military Income	Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as it can be established that the particular source of income will continue to be received in the future. To verify military base pay and entitlements, the borrower's most recent Leave and Earnings Statement (LES) must be obtained.
Mortgage Credit Certificates	<p>States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time homebuyer to obtain a mortgage secured by their principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.</p> <p>When calculating the borrower's DTI ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income:</p> $[(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%})] \div 12 = \text{Amount added to borrower's monthly income.}$ <p>For example, if a borrower obtains a \$100,000 mortgage that has a note rate of 7.5% and they are eligible for a 20% credit under the MCC program, the amount that should be added to their monthly income would be \$125 ($\\$100,000 \times 7.5\% \times 20\% = \\$1500 \div 12 = \\$125$).</p> <p>Copy of the MCC and calculation of the adjustment to the borrower's income must be included in the loan file.</p> <p>For refinance transactions, MCFI may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new loan file.</p>
Notes Receivable Income	<ul style="list-style-type: none"> • Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. • Obtain a copy of the note to establish the amount and length of payment. • Document regular receipt of income for the most recent 12 months. Payments on a note executed within the past 12 months, regardless of the duration, may not be used as stable income.
Retirement, Government Annuity, and Pension Income	<p>Document current receipt of the income, as verified by one or more of the following:</p> <ul style="list-style-type: none"> • a statement from the organization providing the income, • a copy of retirement award letter or benefit statement, • a copy of financial or bank account statement, • a copy of signed federal income tax return, • an IRS W-2 form, or • an IRS 1099 form. <p>If income from a government annuity or a pension account will begin on or before the first payment date, document the income with a benefit statement from the organization providing the income. The statement must specify the income type, amount and frequency of the payment, and include confirmation of the initial start date.</p> <p>If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh</p>



retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met.

Note: The borrower must have unrestricted access to the accounts without penalty.





Rental Income

Eligible Properties

If the rental income is derived from the subject property, the property must be one of the following:

- A two-to four-unit principal residence property in which the borrower occupies one of the units, or
- A one- to four- unit investment property.

If the income is derived from a property that is not the subject property, there are no restrictions on property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements.

Ineligible Properties

Rental income from borrower's principal residence or second home cannot be used to qualify the borrower.

General Requirements for Documenting Rental Income (Subject and Non-Subject Property)

If the borrower has a history of renting the subject property or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject property or if the tax returns do not accurately reflect the ongoing income and expenses of the property, fully executed lease agreements may be used. Examples of scenarios that justify a lease agreement are

- Purchase transactions where there is an existing lease on the property that will transfer to the borrower;
- Refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing;
- Refinance transactions of a property that experienced significant rental interruption such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income); and
- Transactions where rental income is being used to qualify for any property placed in service in the current calendar year, for example, when converting a principal residence to an investment property.

When the subject property will generate rental income, one of the following Fannie Mae forms must be used to support the income-earnings potential of the property:

- For once-unit properties: *Single-Family Comparable Rent Schedule (Form 1007)* provided in conjunction with the applicable appraisal report, OR
- For two- to four-unit properties: *Small Residential Income Property Appraisal Report (Form 1025)*.

Documenting Rental Income from Subject Property

The rental income documentation may vary depending on whether the borrower has a history of renting the property, and whether the prior year tax return includes the income.

Does the Borrower Have a History of Receiving Rental Income From the Subject Property?	Transaction Type	Documentation Requirements
Yes	Refinance	Form 1007 or Form 1025, as



Rental Income
(continued)

		applicable, and either <ul style="list-style-type: none">• the borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E, or• copies of the current lease agreement(s) if the borrower can document a qualifying exception (see Reconciling Partial or No Rental History on Tax Returns below).
No	Purchase	Form 1007 or Form 1025, as applicable, and copies of the current lease agreement(s) if transferred to the borrower. If the property is not currently rented or if the existing lease is not being transferred to the borrower, then lease agreements are not required, and Form 1007 or Form 1025 may be used.
No	Refinance	Form 1007 or Form 1025, as applicable, and copies of the current lease agreement(s).

If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for lender reporting purposes. See Reporting of Gross Monthly Rent below for details.

Documenting Rental Income from Property Other Than the Subject Property

When the borrower owns property – other than the subject property – that is rented, the monthly gross (and net) rental income must be documented with the borrower's most recent signed federal income tax return that includes Schedule 1 and Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception. *See Reconciling Partial or No Rental History on Tax Returns below and Calculating Monthly Qualifying Rental Income (or Loss)*

Reconciling Partial or No Rental History on Tax Returns

To determine the qualifying rental income, find out whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, the analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This policy may be applied to refinances of a subject rental property or to other rental properties owned by the borrower. If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, MCFI may determine qualifying rental income by using

- Schedule E income and expenses, and annualizing the income (or loss) calculation, or
- fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

If...	Then...
the property was acquired or placed into service during the most recent	<ul style="list-style-type: none">• The purchase date must be confirmed using the settlement



Rental Income (continued)

tax filing year,	statement or other documentation, and • Fair Rental Days on Schedule E of the most recently filed tax return must confirm partial year rental income
the property was acquired or placed into service subsequent to the most recent tax filing year,	• The purchase date must be confirmed using the settlement statement or other documentation, if applicable, and • Schedule E or the most recently filed tax return must confirm no rental income or expenses for this property.
the rental property was out of service for an extended period,	• repair expenses on Schedule E of the most recently filed tax return must reflect the costs for renovation or rehabilitation. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service. • Fair Rental Days on Schedule E of the most recently filed tax return must confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
It was determined that some other situation warrants an exception to use a lease agreement,	an explanation and justification in the loan file must be provided.

Calculating Monthly Qualifying Rental Income (or Loss)

Rental income must be calculated for each rental property. To determine the amount of rental income from the subject property that can be used for qualifying purposes, the following must be consider:

If the borrower...	And rental income is from the...	Then for qualifying purposes...
• currently owns a principal residence (or has a current housing expense), and • has at least a one-year history of receiving rental income or at least one year of documented property management experience	subject property or non-subject property	there are no restrictions on the amount of rental income that can be used.



Rental Income (continued)	<ul style="list-style-type: none"> • does not currently have a housing expense, and • has at least one-year of receiving rental income from the property 	non-subject property (in service for at least a year)	there are no restrictions on the amount of rental income that can be used.
	<ul style="list-style-type: none"> • currently owns a principal residence (or has a current housing expense), and • has less than one-year history of receiving rental income from the related property or documented property management experience 	subject property	<ul style="list-style-type: none"> • for a principal residence, rental income in an amount not exceeding PITIA of the subject property can be added to the borrower's gross income, or • for an investment property, rental income can only be used to offset the PITIA of the subject property (in other words, it is limited to zero positive cash flow).
		non-subject property (new or newly placed in service less than a year)	<ul style="list-style-type: none"> • for a principal residence, rental income added to the borrower's gross monthly income is restricted to an amount not exceeding PITIA of the related property. • for an investment property, rental income can only be used to offset the PITIA of the related property (in other words, is limited to zero positive cash flow).
	<ul style="list-style-type: none"> • does not own a principal residence, and • does not have a current housing expense 	subject property	rental income from the subject property cannot be used.
		non-subject property (new or newly placed in service less than a year)	rental income from the property cannot be used.
	<p>To establish a history of property management experience, obtain one of the following:</p> <ul style="list-style-type: none"> • The borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365; • If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or • A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease. <p>Lease Agreements, Form 1007, or Form 1025</p> <p>When using a lease agreement, the lease agreement amount must be supported by</p> <ul style="list-style-type: none"> • Form 1007 or Form 1025, as applicable, or • evidence the terms of the lease have gone into effect. Evidence may include: <ul style="list-style-type: none"> ➢ two months consecutive bank statements or electronic transfers of rental 		



Rental Income <i>(continued)</i>	<ul style="list-style-type: none">payments for existing lease agreements, or➤ copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements. <p>Treatment of Income (or Loss)</p> <p>The treatment and amount of monthly qualifying rental income used in the calculation of the borrower's total debt-to-income ratio — varies depending on whether the borrower occupies the rental property as their principal residence.</p> <p>If the rental income relates to the borrower's principal residence:</p> <ul style="list-style-type: none">• The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)• 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. <p>If the rental income (or loss) relates to a property other than the borrower's principal residence:</p> <ul style="list-style-type: none">• If the monthly qualifying rental income minus the full PITIA is positive, it must be added to the borrower's total monthly income (subject to the limits in Calculating Monthly Qualifying Rental Income (or Loss)).• If the monthly qualifying rental income minus PITIA is negative, the 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 monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation. <p>Note: When a borrower owns multiple rental properties, the rental income for all non-subject properties is first calculated for each property, then aggregated. The aggregate total of the income (or loss) is then added to the borrower's total monthly income or included in their monthly obligations, as applicable.</p>
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Schedule K-1 Income	Schedule K-1 Income For borrowers who have less than 25% ownership of a partnership, S Corp, or 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 lender can confirm the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.
	The following tab provides verification of income requirements for Schedule K-1 borrowers with less than 25% ownership of a partnership, an S corporation, or an LLC.
	Verification of Schedule K-1 Income
	If 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, then 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.
	If 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, then the lender must confirm the business has adequate liquidity to support the withdrawal of earnings. The lender may use discretion in the method used to confirm the business has adequate liquidity.
Seasonal Income	If 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
	Note: 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 on 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 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.
	Seasonal income must be documented by obtaining the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. (Signed federal income tax returns may also be required to verify unemployment income related to seasonal employment.)
	A verbal VOE is also required from each employer. See Employment Verification for specific requirements.
	As this income type may be hourly refer Variable Income for additional information on calculating variable income.
	For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. The income must be consistently received for at least two years as verified by copies of the signed federal income tax returns that reflect the unemployment income is associated with seasonal employment



Social Security Income	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 or from their own account/work record for the benefit of another
	Retirement	<ul style="list-style-type: none"> • SSA Award Letter, • SSA-1099, • Most recent signed federal income tax returns, or • Proof of current receipt 	<ul style="list-style-type: none"> • SSA Award Letter • Proof of current receipt, and • Three-year continuance
	Disability	<ul style="list-style-type: none"> • SSA Award Letter, • SSA-1099, • Most recent signed federal income tax returns, or • Proof of current receipt 	<ul style="list-style-type: none"> • SSA Award Letter • Proof of current receipt, and • Three-year continuance
	Survivor benefits	NA	<ul style="list-style-type: none"> • SSA Award Letter • Proof of current receipt, and • Three-year continuance
	Supplement Security Income (SSI)	<ul style="list-style-type: none"> • SSA Award Letter, and • Proof of current receipt 	NA
Temporary Leave Income	<p>The borrower must provide written confirmation of their intent to return to work.</p> <p>Document the borrower's agreed-upon date of return by obtaining directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.</p> <p>Requirements for Calculating Income Used for Qualifying</p> <p>If the borrower will return to work as of the first loan payment date, the borrower's regular employment income in be use in qualifying.</p> <p>If the borrower will not return to work as of the first loan payment date, must use the lesser of the borrower's temporary leave income (if any) or regular employment income.</p>		



MEGA CAPITAL FUNDING, INC.

Tip Income	<p>Obtain the following documents:</p> <ul style="list-style-type: none">• the borrower’s recent paystub, and• IRS W-2 forms covering the most recent two-year period• a completed <i>Written Verification of Employment</i> is required if W-2s doesn’t report Tip Income			
Trust Income	<p>Obtain one or more of the following trust verification documents to confirm the amount, frequency, type of income being received, and date the trust was created:</p> <ul style="list-style-type: none">• a copy of the trust agreement,• the trustee’s statement,• the trust’s federal income tax returns, or• a letter from an accountant or attorney who reviewed the trust documents, when the above documents are not available or when the borrower is trustee. <p>Note: A borrower who is also a trustee may not supply the trustee’s statement.</p> <p>Confirm the trust was established for 12 months or longer, unless all of the following requirements are met:</p> <ul style="list-style-type: none">• the trust verification documentation reflects fixed payments,• the borrower is not the grantor, and• at least one payment is received prior to closing. <p>Trusts created in the previous 12 months using a borrower’s eligible employment-related assets, as defined in <i>Employment-Related Assets as Qualifying Income</i>, may still be used as stable income but must meet the income calculation and all other requirements in <i>Employment-Related Assets as Qualifying Income</i>.</p> <p>Confirm continuance of income. This confirmation must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined.</p> <p>If any assets from the trust are being used for down payment, closing costs, or reserves, those assets must be subtracted from the total amount before determining if the trust income meets the <i>Continuity of Income</i> requirements.</p> <table><tr><td>Requirements for Trust with Fixed Payments</td><td>Requirements for Trust with Variable Payments</td></tr></table>		Requirements for Trust with Fixed Payments	Requirements for Trust with Variable Payments
Requirements for Trust with Fixed Payments	Requirements for Trust with Variable Payments			



	<p>Use the fixed payment amount from the trust agreement as the borrower's qualifying income, converting it to a monthly amount, as applicable.</p> <p>Document current receipt of trust income with one month's bank statement or other equivalent documentation.</p>	<p>Calculate the qualifying income amount per <i>Variable Income</i> guidelines.</p> <p>Document the following:</p> <ul style="list-style-type: none">• a minimum 24-month history of trust income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, and• current receipt of trust income with one month's bank statement or other equivalent document. <p>Note: Income received for 12 to 24 months may be considered as acceptable income when other positive factors are present that reasonably offset a shorter income history.</p>
Unacceptable Income	<p>Unacceptable income sources include the following:</p> <ul style="list-style-type: none">• Income based on future earnings• Draw Income• Capital withdrawals• VA Education Benefits• Illegal Income/Income not listed on Tax Returns• Any income that cannot be documented and verified• Room/boarder rent from subject property• Trailing Co-Borrower• Any income derived from transactions in or related to the sale or production of marijuana/hemp or any cannabis products or derivatives, such as CBD products.	
IRS 4506-T	<p>Wage Earner Borrower A signed IRS Form 4506-T is required on all loans, regardless of documentation type. All borrowers must sign the IRS Form 4506-T at application and closing. If tax returns are used to calculate borrower income, the Form 4506-T must be processed prior to loan approval.</p> <p>Self-Employed Borrower Fully executed business 4506-T form required for all 1120, 1120S, 1065 businesses where borrower has > 25% ownership in addition to personal 4506-T.</p>	
Tax Transcripts	<p>1040 Transcripts 1040 Transcripts will be required when borrower is self-employed or using income calculated from tax returns to qualify, such as rental income, capital gains, interest/dividend.</p> <p>Business Transcripts Business transcripts will be required when borrower is self-employed or using</p>	



	<p>income calculated from business tax returns to qualify.</p> <p>Note: The years' requirement is determined by the qualifying income and tax returns required per DU findings.</p>
<p>Tax Returns</p> <p>Tax Returns (continued)</p>	<p>Determining the Need for Federal Income Tax Returns Borrower's signed federal income tax returns filed with the IRS for past one (1) or two (2) years (depending on the income type) must be provided for the following source of income or employment</p> <p>Tax Returns are required if the borrower</p> <ul style="list-style-type: none">• is employed by family members (two years' returns);• is employed by interested parties to the property sale or purchase (two years' returns);• receives rental income from an investment property;• receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman;• receives income from capital gains, royalties, or other miscellaneous non-employment earnings reported on IRS Form 1099;• receives income that cannot otherwise be verified by an independent and knowledgeable source (two years' returns);• uses foreign income to qualify;• uses interest and dividend income to qualify;• uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify; or• receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed. Note that for DU loan casefiles, only the most recent year of tax returns may be required.
<p>Employment Verification</p>	<p>Verification of Employment (VOE)</p> <ul style="list-style-type: none">• Wage Earner: Verbal Verification of Employment within 10 business days of prior to Note date• Self-Employed: Documented verification of existence of borrower's business through directory assistance no more than 120 days prior to loan closing date• Military Personnel: Military Leave and Earnings Statement dated within 30 calendar days prior to the Note date, <u>Or</u> VOE through the Defense Manpower Data Center (https://mla-ap.dmdc.osd.mil/mla/#/home)



Multiple Financed Properties	<p>For Primary Residence Transactions other than HomeReady: No limit</p> <p>For Primary Residence HomeReady Loans: Maximum of 2 financed properties financed (including commercial and vacant land)</p> <p>For second home and investment properties: A maximum of ten (10) financed (including commercial and vacant land) properties are permitted.</p> <p>If the borrower is financing a second home or investment property that is underwritten through DU and the borrower will have one to six financed properties, Fannie Mae's standard eligibility policies apply (for example, LTV ratios and minimum credit scores). If the borrower will have seven to ten financed properties, the mortgage loan must have a <u>minimum representative credit score of 720</u>; all other standard eligibility policies apply.</p> <p>The financed property limit:</p> <ul style="list-style-type: none">• Applies to the total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to FNMA;• Includes the borrower's principal residence if it is financed; and is cumulative for all borrowers (though jointly financed properties are only counted once). <p>Applicants that have >2 businesses and/or NON-PRIMARY residence with >6 financed properties are eligible under the AGNP.</p>
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Multiple Financed Properties <i>(continued)</i>	<p>Reserve Requirements Additionally, reserve requirements apply based on the number of financed properties the borrower will have. The borrower must have sufficient assets to close after meeting the minimum reserve requirements.</p> <p>Calculation of Reserves for 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:</p> <ul style="list-style-type: none">• 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 (DU only). <p>The aggregate UPB calculation does not include mortgages and HELOCs that are on:</p> <ul style="list-style-type: none">• The subject property• The borrower's principal residence• Properties that are sold or pending sale• Accounts that will be paid by closing (or omitted in DU on the loan application) <p>Note: DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the loan application.</p> <p>Simultaneous Second Home or Investment Property Transactions If multiple second home or investment property applications are being processed simultaneously, the same assets may be used to satisfy the reserve requirement for both mortgage applications. Reserves are not cumulative for multiple applications.</p>
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CREDIT	
Paycheck Protection Program (PPP) Business Loans	<ul style="list-style-type: none">• No payment, estimated or otherwise, need be included in DTI at this time.• Loan proceeds from the Small Business Administration (SBA) PPP or any other similar COVID-19 related loans or grants are not considered business assets.• Copy of Note/PPP loan document is required for DU files. Not required on LP.
Credit Reports	<ul style="list-style-type: none">• MCFI will pull Credco credit report if a broker's credit report submitted is not on approved credit vendors list.• Broker credit report is allowed if within 60 days from submission date• Credit Reports are good up to 90 days at time of CTC
Eligible Credit Requirements	<p>At least one borrower has no credit score, and another borrower has a credit score.</p> <p>If one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score, then DU will apply the following requirements:</p> <ul style="list-style-type: none">• The property must be a one-unit, principal residence, and all borrowers must occupy the property.• The transaction must be a purchase or limited cash-out refinance.• The loan amount must meet the general loan limits—high-balance mortgage loans are not eligible.• Reserves may be required as determined by DU.• If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, the lender is not required to document a nontraditional credit history for the borrower(s) without a credit score.• If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, the lender must document a nontraditional credit history for each borrower without a credit score.



Past-Due, Collections, Charge-Offs of Non-Mortgage Accounts, Judgements, and Liens	<p>Delinquent credit, including taxes, judgments, charge-offs of non-mortgage accounts, tax liens, mechanics' or materialmen's liens, and liens that have the potential to affect Fannie Mae's lien position or diminish the borrower's ability - must be paid off at or prior to closing.</p> <p>Delinquent federal income taxes that are approved to be paid by a monthly installment agreement with the IRS must be paid in full at or prior to closing if there is any indication that a Notice of Federal Tax Lien has been recorded against the borrower in the county in which the subject property is located.</p> <p>Accounts that are reported as past due (not reported as collection accounts) must be brought current.</p> <ul style="list-style-type: none">• For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount. <p>Note: If the lender marks the collection account Paid By Close in the online loan application, DU will issue a message in the DU Underwriting Findings report stating that the collection must be paid.</p> <ul style="list-style-type: none">• For two to four unit owner-occupied and second home properties, collections and non-mortgage charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.• For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing. <p>Open Judgments and all outstanding liens that are in the Public Records section of the credit report will be identified in the Underwriting Findings report, and must be paid off at or prior to closing.</p>
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Omitted Accounts	<p>Supporting documentation is required when a credit report with a balance greater than zero is omitted from the loan application. For example, evidence the account is paid in full at or prior to closing.</p> <p>If duplicate accounts or accounts that do not belong to the borrower were copied to the loan application and included in the DTI ratio, they may be omitted from Liabilities. Debts that are omitted will not be counted in the DTI.</p>
Installment Debt	<p>All installment debt that is not secured by a financial asset—including student loans, automobile loans, personal loans, and timeshares—must be considered part of the borrower's recurring monthly debt obligations if there are more than ten monthly payments remaining. However, an installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her credit obligations.</p> <p>Note: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).</p>
Lease Payments	<p>Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.</p>
Loans Secured by Financial Assets	<p>When a borrower uses his or her financial assets (life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.) as security for a loan, the borrower has a contingent liability.</p> <p>The lender is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided 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 financial reserve requirements, the lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.</p>
Open 30-Day Charge Accounts	<p>Open 30-day charge accounts require the balance to be paid in full every month. For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.</p> <p>Note: DU will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the DU Underwriting Findings report. However, for transactions that do not require the verification of reserves, the balance of 30-day charge accounts in the Reserves Required to be Verified amount will be reduced by any cash out the borrower will receive through the transaction.</p> <p>If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in lieu of verifying funds to cover the account balance.</p>



Revolving Charge / Lines of Credit	<p>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 trade lines 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.</p> <p>If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the lender must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation.</p> <p>For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of \$10 or 5% of the outstanding balance as the monthly payment when calculating the total debt-to-income ratio.</p>
Social Security Number	<p>Each borrower must have a valid Social Security number (in addition to meeting existing legal residency and documentation requirements).</p> <p>If DU indicates Social Security number appears to be invalid, lender will verify Social Security Number directly with Social Security Administration using Form SSA-89 (Authorization for the Social Security Administration to Release Social Security Number Verification). If the Social Security number cannot be validated, the loan is not eligible for approval by MCFI.</p>
Bankruptcy	<p>Chapter 7 or Chapter 11 A four (4) year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.</p> <p>Chapter 13 A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows:</p> <ul style="list-style-type: none">• Two (2) years from the discharge date, or• Four (4) years from the dismissal date <p>The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completions of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete Chapter 13 plan and received a dismissal will be held to a four (4) year waiting period.</p> <p>**Exceptions for Extenuating Circumstances is not allowed**</p>
Multiple Bankruptcy Filings	<p>For a borrower with more than one (1) bankruptcy filing within the past seven (7) years, a five (5) year waiting period is required, measured from the most recent dismissal or discharge date.</p> <p>Note: The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies.</p> <p>For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy this is not considered a multiple bankruptcy.</p> <p>**Exceptions for Extenuating Circumstances not allowed**</p>



Foreclosure	<p>A seven (7) 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 borrower.</p> <p>Note: When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the bankruptcy waiting period will be applied if appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.</p> <p>DU identifies prior foreclosures for mortgage accounts including first and second liens, home improvement loans, HELOCs, and mobile homes loans as a foreclosure with Remarks Code in the credit report associated with the trade-line OR a Current Status or Manner of Payment (MOP) code "8".</p> <p>**Exceptions for Extenuating Circumstances not allowed**</p>
Deed-in-Lieu of Foreclosure, Pre-foreclosure / Short Sale, and Charge-Off of a Mortgage Account	<p>A four (4) year waiting period is required from the completion date of the deed-in-lieu of foreclosure, pre-foreclosure sale, or charge-off as reported on the credit report or other documents provided by the borrower.</p> <ul style="list-style-type: none">• A deed-in-lieu of foreclosure is a transaction in which the deed to real property is transferred back to servicer. These are typically identified on the credit report through Remarks Codes such as "Forfeit deed-in-lieu of foreclosure."• A pre-foreclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as "Settled for less than full balance."• A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status and is identified on the credit report with a manner of payment (MOP) code of "9." <p>**Exceptions for Extenuating Circumstances not allowed**</p>
Home Equity Lines of Credit	<p>When the mortgage that will be delivered to FNMA also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.</p>



Debts Paid by Others	<p>Certain debts can be excluded from the borrower's recurring monthly obligations and the DTI ratio:</p> <ul style="list-style-type: none">• When a borrower is obligated on a non-mortgage debt -- but is not the party who is actually repaying the debt -- the lender may exclude the monthly payment from the borrower's recurring monthly obligations. This policy 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 loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance.• When a borrower is obligated on a mortgage debt- but is not the party who is actually repaying the debt- the lender may exclude the monthly housing expense (PITIA) from the borrower's recurring monthly obligations if:<ul style="list-style-type: none">○ The party making the payments is obligated on the mortgage debt,○ There are no delinquencies in the most recent 12 months, and○ The borrower is not using rental income from the applicable property to qualify. <p>In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the lender must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.</p>
Alimony / Child Support / Separate Maintenance Payments	<p>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 ten (10) months – the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. A copy of divorce decree, separation agreement, court order, or equivalent documentation confirming the amount or the obligation must be obtained and retained in the loan file.</p>



Business Debt in Borrower's Name	<p>When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.</p> <p>The account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligations if:</p> <ul style="list-style-type: none">• 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 lender's cash flow analysis of the business took payment of the obligation into consideration. <p>The account payment must be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:</p> <ul style="list-style-type: none">• If the business does not provide sufficient evidence that the obligation was paid out of company funds.• If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.• If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.
Garnishments	<p>All garnishments with more than ten (10) months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.</p>
Court Ordered Assignment of Debt	<p>When a borrower has 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 is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.</p> <p>The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The lender cannot disregard the borrower's payment history for the debt before its assignment.</p>
Deferred Installment Debt	<p>Deferred installment debts 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 amount that will be payable at the end of the deferment period, the lender must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.</p> <p>For information about deferred student loans, see Student Loans below.</p>



Student Loans	<p>If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.</p> <p>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, the lender must determine the qualifying monthly payment using one of the options below.</p> <ul style="list-style-type: none">• If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment.• For deferred loans or loans in forbearance, the lender may calculate<ul style="list-style-type: none">○ a payment equal to 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.
Disputed Credit Report Tradelines	<p>When the credit report contains tradelines disputed by the borrower, DU will first assess the risk of the loan casefile using all trade lines, including those disputed. If DU issues an Approve recommendation using the disputed tradelines, no further documentation or action is necessary. DU will issue a message specific to this scenario.</p> <p>If DU does not issue an Approve recommendation when including the disputed tradelines, DU will re-assess the risk without using the disputed tradelines. If DU is then able to issue an Approve recommendation, the lender must investigate the tradelines to determine whether the borrower is responsible for the accounts or if the account information is accurate or complete.</p> <ul style="list-style-type: none">• If the borrower is not responsible for the disputed accounts, the lender must obtain supporting documentation and may deliver the loan as a DU loan. No further action is necessary regarding the disputed tradelines.• If the borrower is responsible for the disputed account, the lender must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the lender may deliver the loan as a DU loan.• If the borrower is responsible for the disputed account, the lender must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the lender may deliver the loan as a DU loan. <p>The monthly payments for the disputed tradelines must be included in the DTI ratio if the accounts belong to the borrower.</p> <p>Note: Tradelines reported as medical debt are not shown in the disputed tradeline message. Therefore, lenders are not required to investigate disputed medical tradelines.</p>
Ineligible Credit Standards	<ul style="list-style-type: none">• Non-traditional credit or all borrowers with no Fico score.• Borrower has invalid Social Security number.• Mortgage/Rental Delinquency: More than 0x60x12 months late on any mortgage or rental payment• The borrower is a party to lawsuit.• If Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure, Pre-foreclosure/Short Sale, and Charge-Off of a Mortgage Account standard seasoning requirement not met.



ASSETS	
Asset Documentation	<p>Depository Accounts Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts may be used for the down payment, closing costs, and financial reserves. The funds must be verified. Unverified funds are not acceptable for the down payment, closing costs, or financial reserves.</p> <p>Business Assets Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves. If the borrower is also using self-employment income from this business to qualify, the individual federal income tax returns have been evaluated, 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.</p> <p>Evaluating Large Deposits When bank statements (typically covering the most recent two months) are used, large deposits will be evaluated (defined as a single deposit that exceeds 50% of the total monthly qualifying income) for the loan.</p> <p>Request for Verification of Deposit When a Verification of Deposit (VOD) is used and depository activity is not included, verification of the source of funds for:</p> <ul style="list-style-type: none">• Accounts opened within the last 90 days of the application date• Account balances that are considerably greater than the average balance reflected on the VOD.
Reserve Requirements	<p>Liquid financial reserves are those liquid or near liquid assets that are available to a borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are converted to cash by the borrower by:</p> <ul style="list-style-type: none">• Drafting or withdrawing funds from an account,• Selling an asset,• Redeeming vested funds, or• Obtaining a loan secured by assets from a fund administrator or an insurance company. <p>Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (PITIA) that a borrower could pay using his or her financial assets.</p> <p>Minimum required reserves vary depending on:</p> <ul style="list-style-type: none">• The transaction• The occupancy status and amortization type of subject property• The number of units in the subject property, and• The number of other financed properties the borrower currently owns. <p>DU will determine the reserves 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 a borrower has multiple financed properties and is financing a second home or investment property, DU will base the reserve calculations for the other financed properties on the number of financed properties determined by DU.</p>



Gift of Equity	<p>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.</p> <p>A gift of equity</p> <ul style="list-style-type: none">• is permitted for principal residence and second home purchase transactions;• can be used to fund all or part of the down payment and closing costs (including prepaid items); and• cannot be used towards financial reserves. <p>The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and the gift of equity is not subject to interested party contribution requirements.</p> <p>Documentation Requirements:</p> <ul style="list-style-type: none">• Signed Gift Letter (see Gift Funds), and• The settlement statement listing the gift of equity.
Gift Funds	<p>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 below. <i>Gifts are not allowed on investment property.</i></p> <p>Acceptable Donors are a gift can be provided by:</p> <ul style="list-style-type: none">• a 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; or• a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent. <p>Note: 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. Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:</p> <ul style="list-style-type: none">• specify the dollar amount of the gift;• specify the date the funds were transferred;• include the donor’s statement that no repayment is expected; and• indicate the donor’s name, address, telephone number, and relationship to the borrower. <p>Gift must be verified that sufficient funds to cover the gift are either in the donor’s account (such as a checking, savings or investment account owned by the donor) or have been transferred to the borrower’s account. Acceptable documentation includes the following:</p> <ul style="list-style-type: none">• a copy of the donor’s check and the borrower’s deposit slip,• a copy of the donor’s withdrawal slip and the borrower’s deposit slip,



	<ul style="list-style-type: none">evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent;a copy of the donor's check to the closing agent, ora settlement statement showing receipt of the donor's check.
Retirement Account	<p>Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(K) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. Ownership of the account must be verified and confirmation that the account is vested and allows for withdrawals regardless of current employment status is required. When funds from retirement accounts are used for reserves, funds are not required to be withdrawn from the account(s).</p>
Stocks, Stock Options, Bonds, and Mutual Funds	<p>Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value and borrower's ownership of account can be verified.</p> <ul style="list-style-type: none">When used for the down payment or closing costs, if the value of the asset 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.When used for reserves, 100% of the value of these assets may be considered and liquidation is not required. <p>The value of the asset and any related documentation must meet the requirements:</p> <p>Stocks and Mutual Funds</p> <ul style="list-style-type: none">Most recent monthly or quarterly statement from depository or investment firmA copy of the stock certificate, accompanied by the newspaper stock list that is dated as of or near the date of the loan application <p>Stock Options</p> <ul style="list-style-type: none">A statement that lists the number of options and the option priceUsing the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock <p>Note: Non-vested stock options are not an acceptable source of funds for the down payments, closing costs, or reserves.</p> <p>Government Bonds</p> <p>The value of government bonds must be based on their purchase price unless the redemption value can be documented.</p>



Unacceptable Sources of Reserves

- 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
- Interested party contributions (IPCs)
- Any amount of a lender contribution
- Cash proceeds from a cash-out refinance transaction on the subject property.





PROPERTY	
Eligible Property Types	<ul style="list-style-type: none"> • 1-Unit (including Condominiums, & PUDs) • 2-4 Unit (including 2-unit PUDs) • Manufactured Home (see Manufactured Housing Product guidelines)
Age of Appraisal	<ul style="list-style-type: none"> • Appraisal Recertification of Value with two additional comparable required 90 days from original report date and it is good for additional 90 days. The appraisal value is good for a total of 180 days.
Appraisal Transfers	<p>Acceptable with the following requirements</p> <ul style="list-style-type: none"> • Fully executed Appraisal Transfer Letter • Appraisal Report in XML format • Appraisal Invoice and Appraiser Independence Certification • MCFI will verify appraiser is not listed on exclusionary list • Must be within 60 days at the time of submission and 90 days at the time of CTC
PIW/Value Acceptance Eligible Transactions	<p>The PIW offer will be considered for the following transactions:</p> <ul style="list-style-type: none"> • One-unit properties, including condos; • Principal residence, second home, and investment property transactions; • Certain limited cash-out and cash-out refinance transactions; and • DU loan casefiles that receive an Approve/Eligible recommendation.
PIW/Value Acceptance Ineligible Transactions	<p>The following transactions are not eligible for a value acceptance (appraisal waiver) offer:</p> <ul style="list-style-type: none"> • two- to four-unit properties; • manufactured homes; • construction-to-permanent loans (single-close and two-close); • Texas Section 50(a)(6) loans; • community land trusts or other properties with resale price restrictions • transactions where either the purchase price or estimated value provided to DU is \$1,000,000 or more; • transactions using gifts of equity; • DU loan casefiles that receive an Ineligible recommendation
	<p>For certain loan casefiles, DU offers value acceptance + property data - an option that requires interior and exterior property data collection to verify property eligibility prior to the note date. An appraisal is not required.</p> <p>Eligible Transactions Loan casefiles for certain one-unit properties will be considered for value acceptance + property data.</p> <p>Ineligible Transaction</p> <ul style="list-style-type: none"> • two- to four-unit properties; • manufactured homes; • proposed construction; • construction-to-permanent loans (single-close and two-close);



Value acceptance + Property Data

- investment properties when rental income is used to qualify the borrower;
- Texas 50(a)(6) loans;
- leasehold properties;
- community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is \$1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation

Property Data Collection

The property data collection consists of a visual observation of the interior and exterior areas of the subject property. It must be performed by a trained and vetted property data collector and must adhere to Fannie Mae's Property Data Standard. The Standard sets forth the minimum requirements for collection of subject property data including photos and a floor plan conforming to the ANSI Standard.

After the property data collection is completed, it must be successfully submitted to Fannie Mae's Property Data API.

Property Data Collector

The property data collector is the individual who personally visits the subject property to perform the property data collection guided by an application on a handheld device developed in compliance with Fannie Mae's Property Data Standard. The property data collector must identify and communicate any safety, soundness, or structural integrity issues and significant items of incomplete construction or renovation.

Lender Vetting of Property Data Collectors

The lender must verify and be able to demonstrate that the data collectors are

- selected in accordance with Fannie Mae requirements, including the Property Data Collector Independence Requirements,
- vetted through an annual background check,
- professionally trained, and
- they possess the essential knowledge to competently complete the property data collection.

The lender must ensure that the data collectors are trained to comply with their fair lending laws and deliver accurate results unaffected by personal biases. To avoid conflict of interest, the lender must ensure that the data collector has no interest in or ties to the underlying loan origination transaction, participants, or subject property.



Value acceptance + Property Data (continued)

The lender or lender's agent must review the data collector's credentials and qualifications at least annually to ensure ongoing compliance. Evidence of the reviews must be available to Fannie Mae upon request.

Exercising Value Acceptance + Property Data

A lender may only exercise value acceptance + property data when

- the final submission of the loan casefile to DU resulted in an eligibility message for value acceptance + property data,
- property data collection is obtained after the initial DU offer and prior to the note date,
- property data collection is submitted to the Property Data API prior to the note date,
- an appraisal is not obtained for the transaction, and
- the offer is not more than four months old on the date of the note and mortgage.

Lenders that elect to exercise value acceptance + property data must include Special Feature Code 774 at loan delivery. The property data collection is only valid for 12 months from date of collection and must be performed prior to the note date.

If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in some cases it may be possible for the lender to provide the property data collection to an appraiser to perform a hybrid appraisal assignment. Alternatively, the lender may obtain a desktop or traditional appraisal report as specified by DU.

Property Data Collection with Needed Repairs or Completion Verification

The lender must represent and warrant that the property

- does not have safety, soundness, or structural integrity issues;
- does not have significant items of incomplete construction or renovation; and
- meets Fannie Mae's property eligibility requirements.

To make these representations and warranties in the absence of an appraisal, the lender must examine the descriptive information and photo exhibits from the property data collection to determine whether the property meets the above requirements.

When the property data collection evidences any items failing eligibility requirements, the property must be repaired or completed prior to closing of the loan. Because there is no appraisal, we cannot use appraisal Form 1004D for verification of completion. Instead, we will need to obtain a borrower attestation letter.

The letter must include (at a minimum) the following:

- borrower name,
- property address,
- certification language that the alteration or repair was satisfactorily completed,
- date and signature(s) of the borrower(s),
- visually verifiable exhibits of the completed work, and
- one or more of the following



	<ul style="list-style-type: none">• signature of the qualified professional,• a professionally prepared report, or• paid invoices for the alterations or repairs. <p>Note that two forms of verification are required – the visual exhibit together with at least one of the three third party exhibits listed at the end.</p> <p>If virtual inspection technology is used to generate the visually verifiable exhibit, it must be unaltered and able to be authenticated using metadata and geocode for the subject property.</p> <p>When the lender, based on their review of the property data, is uncertain about the need for repairs, alterations, or completion, the lender may choose to begin requiring a professional inspection targeting the feature in question (example: roof appears worn but unable to ascertain viability from photos, then obtain a roof inspect). Lender's review of a professionally prepared report may lead to a repair requirement or may resolve the issue.</p>
Desktop Appraisal	<p>Uniform Residential Appraisal Report (Desktop) (Form 1004 Desktop) are allowed to use for following transactions:</p> <ul style="list-style-type: none">• Purchase transactions• One-unit primary residences (including PUD)• LTV ≤ 90%• DU Approve/Eligible or LPA Accept• DU/LPA findings must issue a message informing the lender they can choose to obtain an appraisal reported on Form 1004 Desktop. <p>The minimum scope of work for Form 1004 Desktop does not include an interior and exterior on-site physical inspection of the subject property or comparable sales by the appraiser; instead, the appraiser relies on data obtained from alternative sources to identify property characteristics and condition. Form 1004 Desktop requires the use of a floor plan in addition to other exhibits required for traditional appraisals. Form 1004 Desktop should adhere to the UAD specification for Form 1004 and must be submitted through the Uniform Collateral Data Portal®.</p> <p>Note: For purposes of qualifying for a desktop appraisal, this LTV ratio is calculated using the sales price. Loan will remain eligible with a desktop appraisal with an LTV ratio higher than 90% as calculated using the value obtained from the desktop appraisal if the loan amount does not increase and all other eligibility requirements are met, including the requirement that the LTV ratio calculated using the sales price is less than or equal to 90%. LTV ratios greater than 90% that occur because of loan amount changes require an upgrade to an interior and exterior inspection appraisal.</p> <p>The following transactions are not eligible for the desktop appraisal option:</p> <ul style="list-style-type: none">▪ second homes and investment properties.▪ limited cash-out and cash-out refinances.▪ construction-to-permanent loans.▪ two- to four-unit properties.▪ HomeReady▪ condo▪ manufactured homes▪ all refinances▪ properties with resale restrictions, excluding those subjects to age-based resale restrictions



Hybrid Appraisal	<p>Hybrid appraisals (Form 1004 Hybrid) are based on interior and exterior property data collection by a vetted and trained third-party that is provided to an appraiser to inform the appraisal. They are permitted for certain one-unit transactions where value acceptance + property data was initially started but changes in loan characteristics results in the transaction not being eligible for that option.</p> <p>Completing the Form 1004 Hybrid Property data collection and the appraisal report are separate assignments and may be performed by different people. If the appraiser does not perform the data collection, the lender must share the property data collection with the appraiser at the time of engagement. The appraiser will use the data along with other third-party sources to develop the appraisal. The effective date of the hybrid appraisal is the date that the appraiser arrives at their opinion of value.</p> <p>Eligible Transactions A hybrid appraisal is only permitted when all of these preconditions are met in this sequence:</p> <ol style="list-style-type: none">1. DU determines the loan is eligible for value acceptance + property data.2. The lender obtains property data and submits it to the API.3. The property data confirms that the property type is residential and not on the Ineligible Transactions list below.4. The loan loses eligibility in DU for value acceptance + property data due to a change in qualifying loan characteristics.5. The lender provides the property data collection to an appraiser to perform a hybrid appraisal assignment. <p>Ineligible Transactions The following transactions are not eligible for a hybrid appraisal:</p> <ul style="list-style-type: none">• two- to four-unit properties;• condo (including detached condos) and co-op units;• manufactured homes;• proposed construction;• construction-to-permanent loans (single-close and two-close);• Texas (50)(a)(6) loans;• community land trusts, or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;• transactions where either the purchase price or estimated value provided to DU is \$1,000,000 or more;• transactions using gifts of equity;• DU loan casefiles that receive an Ineligible recommendation
Disaster Requirements	<p>When the property securing the loan is located in an area that FEMA has declared a Major Disaster Area eligible for individual assistance, the following requirements apply. These requirements are applicable for any loans registered, or existing loans in pipeline that have not yet funded, during the Disaster Monitoring Period. In the event of multiple or on-going adverse events, the required documentation must be obtained after the most recent event.</p> <p>The inspection requirements below also apply for loans closed and not yet sold.</p> <p>For Loans Utilizing an Appraisal Waiver</p>



	<ul style="list-style-type: none">• Catastrophic Disaster Area Property Inspection Report or Exterior Disaster Inspection Certification with color photographs is required.<ul style="list-style-type: none">➢ must be completed after the incident period end date as defined by FEMA.➢ Must indicate any repairs needed and evidence repairs have been completed must be provided. <p>This policy must be followed for 90 days after the end date of a declared disaster.</p> <p>For Loans with Appraisal Report If Appraisal is dated on or before the Incident Period End Date, including ongoing disasters where an Incident Period End Date has not yet been declared.</p> <p>A 1004D or a Disaster Inspection Certification and color photographs are required of the exterior of the property and subject neighborhood.</p> <p>The inspector must provide a certification, on the inspector's letterhead, stating the following:</p> <ul style="list-style-type: none">• An exterior inspection has been completed.• The property is free from damage and is in the same condition as previously appraised.• Marketability of the property is unchanged.• If repairs were needed and have been completed, this must be stated, and repairs evidenced as complete.
Ineligible Property Types	<ul style="list-style-type: none">• Commercial Properties• Vacant land or land development properties• Properties that are not readily accessible by roads that meet the local standards• Agricultural properties, such as farms or ranches• Units of condo or co-op hotels• Houseboats• Boat slips• Timeshare• Boarding houses• Bed and breakfast properties• Mixed Use Properties• Condo-hotel• Motel conversion• Co-operatives• Properties with evidence of growing or production of marijuana/hemp or any cannabis products• Properties that are not suitable for year-round occupancy regardless of location.• Properties in Hawaii under Lava Zone 1 & 2



LEASEHOLD ESTATES

MCFI allows properties on leasehold estates in areas in which this type of property ownership has received market acceptance. Mortgages secured by manufactured homes located on leasehold estates are not eligible unless the property is in a condo or PUD project approved by Fannie Mae (CPM FNMA Approved). 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,
- be subject to the mortgage lien, and
- 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. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

Lease and Lender Requirements

- The term of the leasehold estate must run for at least five years beyond the maturity date of the loan, unless fee simple title will vest at an earlier date in the borrower.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times 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 sublessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those they are 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 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 or sublease should provide for the following:
 - Priority of MCFI's (as the leasehold mortgagee) first mortgage lien over all other liens, especially those for assessments to support common amenities.
 - Contain provisions to protect MCFI's interest in the event of bankruptcy of any party to the lease, foreclosure, the property's



	<p>condemnation or destruction, such as the right to assume the lease and any renewal options, or acquire the lease in its own name or in the name of a nominee upon foreclosure or deed in lieu of foreclosure.</p> <p>➤ Any provisions for increases in basic rent, or taxes, insurance and utilities or fees or expenses for maintenance of common areas if collected and paid by the lessor, must be limited to a certain amount at a specific date or time interval, or subject to a maximum annual increase limitation.</p>
Additional Eligibility Requirements	<ul style="list-style-type: none">• All lease rents, other payments, or assessments that have become due must be paid.• The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.• ALTA Endorsement 13.1-06 is required.• When property is held by a community land trust, the title insurance policy (or an endorsement to the policy) must expressly confirm the following:<ul style="list-style-type: none">○ The recording of the complete community land trust ground lease or ground lease memorandum.○ The recording of the Community Land Trust Ground Lease Rider (Form 2100)○ The community land trust mortgage is a first lien on the leasehold estate and the improvements.○ There are no existing mortgage loans or other liens on the fee estate, except as maybe permitted under Form 2100.○ The ground lessor's reversionary interest is subordinate to the community land trust mortgage.○ There are no related community land trust ground lease occupancy and resale restrictions, covenants, or agreements that "run with the land" and have been recorded apart from the ground lease, except maybe permitted under Form 2100.• Due to leasehold restrictions, Hawaiian Home Lands are not permitted.• Not permitted for Texas 50(a)(6) loans.• Leaseholds secured by Indian/Tribal land are ineligible.• For condo or PUD, the homeowners association must be the lessee under the ground lease. The fee simple owner must not be in the developer, an entity associated with the developer, or a hospitality entity.• The leasehold estate and mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sublessor. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.
Appraisal Requirements	<p>The appraisal requirements for leasehold interest properties are as follows:</p> <ul style="list-style-type: none">• Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.



	<ul style="list-style-type: none">Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property. <p>Comparable Selection Requirements:</p> <p>When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.</p> <p>However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised.</p>
Community Land Trust Appraisal Requirements	<p>Appraiser must be knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust.</p> <p>The appraisal requirements for community land trust properties are as follows:</p> <ul style="list-style-type: none">The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property. Fannie Mae has developed the <i>Community Land Trust Ground Lease Rider</i> (Form 2100) that the lender and the borrower must execute to remove such restrictions from the community land trust's ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other



restrictions that the ground lease rider removes when Fannie Mae has to dispose of a property acquired through foreclosure. (For additional information, see Section B5-5.3, Shared Equity Transactions, for legal considerations.)

- The appraiser must use a three-step process to develop an opinion of value. The appraiser must determine:
 1. The fee simple value of the property by using the sales comparison analysis approach to value,
 2. The applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
 3. The leasehold value by reducing the fee simple value by the lease fee value.

Note: When this appraisal technique is used, there is no need to document the actual land value of the security property.

- On the actual appraisal report form, the appraiser must
 - indicate “leasehold” as the property rights appraised,
 - provide the applicable ground rent paid to the community land trust,
 - show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,
 - report the “leasehold value” as the indicated value conclusion, and
 - check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

Comparable Selection Requirements for Determining Fee Simple Value

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as they make appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all



likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which Fannie Mae requires the appraisal of the subject property to be based.

Determining the Capitalization Rate

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a “riskless” (safe) rate.

Determining the Leasehold Value

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust’s ground lease into a leased fee value by dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at their opinion of the leasehold value of the subject property.

For example, assume that the annual ground rent from the community land trust’s ground lease is \$300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is \$100,000:

- $\$300 \text{ annual rent} / 5.75\% \text{ capitalization rate} = \$5,217.39$ (rounded to \$5,200)
- $\$100,000 \text{ fee simple value} - \$5,200 \text{ leased fee value} = \$94,800$ (leasehold value)



Addendum to the Appraisal Report

The appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered. The addendum must also include the following statement:

“This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider.”



COMPLIANCE	
Escrow Account	<p>Fannie Mae does not require an escrow deposit for property or flood insurance premiums for an individual unit in a condo, or PUD when the project in which the unit is located in covered by a blanket insurance policy purchased by the homeowners' association.</p> <p>FNMA advocates the establishment of an escrow account for the payment of taxes and insurance, particularly for borrowers with blemished credit history or first-time homeowners.</p> <p>Mandatory Impounds on all HPML and Higher-Priced QM loans.</p> <p>Flood Insurance must be impounded on all Flood Zone Area properties (SFR, Multi-Units, Detached Condo/PUD).</p>
Power of Attorney	Follows FNMA guidelines regarding Power of Attorney
Mega Agency X (improved pricing & turn-times for eligible AGENCY FIXED submissions)	<p><u>Mega Agency X</u> is a Fannie Mae or Freddie Mac eligible transaction that has the following loan characteristics:</p> <ul style="list-style-type: none"> • 640 minimum (qualifying) fico score • 95% Max LTV/CLTV • Minimum \$75,000 loan amount • Wage earner – No self-employed* • 2 max REOs (including subject and non-subject REOs, commercial properties, land) • Occupancy: Primary residence only • 2 units maximum • Conforming and High-Balance fixed • Must have either <ul style="list-style-type: none"> ○ DU (Approve/eligible) or LP (Accept/eligible) findings ○ Appraisal Waivers from both DU/Value Acceptance or LP/ACE acceptable. • Pending departing property sale should be closed concurrently with the new purchase property • Leasehold & Unique Housing Property Types are ineligible • For non-CA properties with LTV > 80%, taxes & insurance impounds is required. If no impounds or tax only impounds, loan must be counterered to AGN. • See VISA & EAD Chart for other program overlays Broker Resources – MCFUNDING.COM <p>*No self-employed income:</p> <ul style="list-style-type: none"> ○ K-1 income with less than 25% ownership, is acceptable if income is not being used to qualify. ○ No schedule C, K-1 income, LLC, Partnership, regardless of the amount of S/E income for all borrowers are allowed. <p><u>Program codes</u></p> <ul style="list-style-type: none"> • Conforming: MAX30, MAX25, MAX20, MAX15 & MAX10 • Hi-Balance: MAXHB30, MAXHB25, MAXHB20 & MAXHB15



<p>Temporary Buydowns Option</p>	<p>2-1 buydown option - The rate is 2% points lower during the first year and 1% point lower in the second year. Actual note rate will apply during the third year.</p> <p>1-0 buydown option - The rate is 1% point lower during the first year. Actual note rate will apply during the second year.</p> <ul style="list-style-type: none"> • AGN and HB pricing applies • Occupancy: Primary residence and second home • Purchase transactions only • Offered only for buydown funds provided by interested third parties.[*] Interested-party contribution limits will apply. (*If the portion of the buydown funds will be from the real estate agent commission, his/her commission must be reduced by the buydown fund amount in order for the seller/builder to provide total amount of the buydown funds.) • The buydown plan must be a written agreement between the party providing the buydown funds and the borrower. • Must have DU (Approve/eligible) or LPA (Accept/eligible) findings • Qualify the borrower based on the note rate without consideration of the bought-down rate. • If reserves are required, the reserves must be calculated using the Note Rate. <p>Buydown Agreements</p> <ul style="list-style-type: none"> ○ Must provide that the borrower is not relieved of his or her obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available <p>Buydown Funds</p> <ul style="list-style-type: none"> ○ Buydown accounts must be established and fully funded by the time the lender submits the mortgage to Fannie Mae for purchase or securitization. ○ Funds for buydown accounts must be deposited into custodial bank accounts. ○ The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the note. ○ Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied. ○ Buydown funds cannot be used to pay past-due payments. ○ Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio. <p><u>Program codes</u></p> <p>2-1 Buydown:</p> <ul style="list-style-type: none"> • Conforming: 21BD-30, 21BD-20, 21BD-15, 21BD-10 • Hi-Balance: 21HBD-30, 21HBD-15 <p>1-0 Buydown:</p> <ul style="list-style-type: none"> • Conforming: 10BD-30, 10BD-20, 10BD-15, 10BD-10 • Hi-Balance: 10HBD-30, 10HBD-15
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Note: If a topic is not addressed within these guidelines, MCFI will align with Fannie Mae (FNMA) depending on the AUS findings received for loan approval.