



## Home Savings Direct

Note: *Items in italics represent areas where HSOA requirements differ from FNMA.*

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## 1. Eligibility

### *Product Information*

#### **Product Description**

A fixed rate, fully amortizing mortgage with conforming loan amounts for 30 or 15 years, or 5/1

**This product may only be used in conjunction with the HS Direct FNMA High Balance, HS Direct DU Refi Plus, and the Home Savings CEMA overlays. It MAY NOT be used with any other program or overlay.**

#### **Interest Only**

*Not allowed*

#### **Program Codes:**

HCF15 – 15 year fixed  
 HCF15CMA – 15 year fixed CEMA  
 HCF30 – 30 year fixed  
 HCF30CMA – 30 year fixed CEMA  
 HC51L – 5/1 LIBOR ARM  
 HC51LCMA – 5/1 LIBOR ARM CEMA

#### **Business Channels accepted**

Available through Retail and Wholesale Originations. Exceptions to other investors are not available.

#### **ARM Terms**

##### **Initial/Annual Adjustment Cap:**

Term	Index	Cap Structure	Initial Interest Rate Adjustment Cap and Date
5/1	LIBOR	5/2/5	The interest rate is fixed for the first 60 months. The maximum interest rate adjustment at the first adjustment date is 5%. Thereafter the interest rate adjusts annually with a maximum interest rate change of 2%, which will not cause deferred interest, and a life cap of 5%.

**Note:** The interest rate must always be rounded to the nearest 1/8th of 1% (0.125%).

**Index:** The average of interbank offered rates for one (1) year U.S. dollar-denominated deposits in the London market (LIBOR) as published in the Wall Street Journal.

**Margin:** Margin is 2.25%. The margin is the floor.

**Payment Cap:** N/A

**Payment Adjustment Date:** The payment change date will be the first of the month following the interest rate adjustment, and every 12 months thereafter.

**Conversion Option and fee:** Not Convertible

#### **Assumptions:**

Not assumable during the fixed rate period. At the end of the fixed rate period, assumable subject to credit approval.

**Prepayment Penalty:** None

**Qualifying Rate:** See Section 6 - Ratios

#### **Minimum Loan Size**

\$30,000

## Maximum LTV and Credit Score

LTVs above 80% are subject to MI eligibility requirements. **Matrix reflects BPMI and investor criteria**

<b>Purchase and Rate/Term Refinance</b>		
<b>Property Type</b>	<b>Maximum LTV / CLTV-HCLTV</b>	<b>Minimum Credit Score</b>
1 Unit Primary Residence	97% / NA	720
1 Unit Primary Residence	95% / NA 80% / 95%	620
1 Unit Primary Residence	80% / 80%	620
2 Units Primary Residence	80% / 80%	620
3-4 Units Primary Residence	75% / 75%	620
1 Unit SH	75% / 75% purchase 70% / 70% rate/term	720 720
1 Unit Investment	75% / 75% purchase 70% / 70% rate/term	720 720
2-4 Units Investment	70% / 70%	720
<b>Cashout Refinance Including Delayed Financing Cash out Exception</b>		
<b>Property Type</b>	<b>Maximum LTV/ CLTV-HCLTV</b>	<b>Minimum Credit Score</b>
1 Unit Primary Residence	80% / 85% 85% / N/A	620
2 Units Primary Residence	75% / 75%	620
3-4 Units Primary Residence	75% / 75%	620
<b>Delayed Financing Cash out Exception Refinance (See the Delayed Financing Exception requirements for details)</b>		
<b>Not eligible for any other cash out refinances</b>		
1 Unit Second Home	70% / 70%	720
1 Unit Investment	70% / 70%	720
2-4 Units Investment	65% / 65%	720

**Additional Underwriting Requirements for SH and NOO transactions with 5-10 financed properties; these policies, not DU findings, must be followed. eHome and DU are NOT programmed to provide these requirements:**

- No history of bankruptcy or foreclosure within the past 7 years
- 0x30 in the last 12 months on any mortgage
- **Rental income from other properties owned by the borrower must be supported by two years federal tax returns.** For properties were acquired subsequent to the last tax filing, leases may be used to document rental income.
- ~~Full documentation must be obtained and~~ **DU messages for reduced rental income documentation are not eligible.**
- **Follow DU for income documentation requirements for non-rental sources.**
- **Tax returns must reflect 2 full years of owning and managing rental properties.**
- **Allowed up to FNMA conforming limits (not allowed on Home Savings Direct High Balance loans)**

**Reserve Requirements:**

**SH:** 2 months for subject property, plus 6 months for each other SH or Investment property owned

**Investment:** 6 months for subject property, plus 6 months for each other SH or Investment property owned

**Manual Underwriting transactions for Disputed trade lines**

**NOTE: eHome and DU are NOT programmed to determine Manual Underwriting Eligibility**

**Temporarily unavailable**

**Impound/Escrow Accounts**

Impound/Escrow Accounts for property taxes and hazard insurance may be waived for a fee (see rate sheet) except escrows are mandatory for loan amounts at the following LTVs:

- CA: Owner occupied: >=90%; SH and NOO: >80%
- All other States (all occupancies) >80%
- All HPML loans, regardless of LTV
- Refinances where borrower's property taxes are delinquent.

When allowed per above, borrowers may choose to escrow for one (taxes or insurance), but are subject to the same pricing charge as if all escrows were waived.

Exceptions:

- Flood insurance (which is a required escrow if flood insurance is required - at all LTVs; and doesn't require that other escrows be established).
- When MI insurance is required, the monthly MI payment must be escrowed.

**Conforming Loan Amounts**

Except in High Cost areas (See Home Savings Direct High Balance Overlay for loans above \$417,000 on one or two unit properties), loan limits are:

Contiguous States

1-unit - \$417,000

2-units - \$533,850

3-units - \$645,300

4-units - \$801,950

Available FNMA High balance limits are available at <https://entp.hud.gov/idapp/html/hicostlook.cfm>; be sure to choose 'Fannie/Freddie' as limit type and the current calendar year.

## Mortgage Insurance

LTV Ranges	10-, 15-, and 20- Year Term	25 and 30-Year term
95.01 - 97%	35%	35%
90.01 – 95%	25%	30%
85.01 – 90%	12%	25%
80.01 – 85%	6%	12%

The following transactions require full credit file submissions to the MI company; ‘delegated’ MI is not allowed:

- LTV>95%
- Properties sold by the seller less than 181 days (acquisition date to purchase contract date)
- Rural or unique properties
- Transactions with multiple risk layers
- Loans with >90% LTV and <660 credit score

### Mortgage Insurance Notes:

- MI coverage must meet the requirements grid above. HSOA will not accept DU findings that allow Reduced MI or Custom/Lower cost MI (which requires a loan-level price adjustment).
- Minimum credit score required for MI coverage is determined by the MI companies, which generally ranges from 660 to 720.
- Lender Paid Mortgage Insurance (LPMI), single premium, split premium and financed MI are not accepted.
- Mortgage insurance is required on all first mortgage loans with a LTV greater than 80%.
- For all loans requiring mortgage insurance, borrowers must be supplied with a Mortgage Insurance Disclosure form. The disclosure must describe the reason the mortgage insurance is required, the guidelines for cancellation, and contact references for canceling the insurance.
- Approved Mortgage Insurance Companies include: Genworth, MGIC, and Radian.
- *The **monthly MI premium plan** is required for all loans requiring mortgage insurance. Choose the Level renewal option (not declining balance).*
- For properties in the state of New York:
  - a. LTV for pricing, eligibility, and DU entry is based on the lower of value or sale price.
  - b. LTV for determining if MI is required is based on value (not the lesser of value or sales price).
    - i. If LTV based on value is <=80%, MI is not required;
    - ii. If LTV based on value is >80%, the MI coverage amount is based on the DU required coverage.
      1. Example: If the LTV is 95% based on price, but 83% based on value, 30% MI coverage is required (on 30 year loans).

Mortgage Insurance companies may have tighter requirements than FNMA or HSOA on credit guidelines, including DTI, tradelines, property, R/T definitions, credit scores, etc. Any loan exceeding 80% LTV (except DU Refi Plus) must meet the respective requirements of FNMA, HSOA, and the MI Company. See MI Comparison Matrices for summary; consult the MI company underwriting guidelines for full details.

### Subordinate Financing

- Allowed to the maximum CLTV limits as shown in the Maximum LTV/CLTV heading, provided the first lien LTV <=80%.
- Secondary financing must be provided by an institutional lender. *Secondary financing provided by a property seller, a Community Second, or Employer-assisted seconds are not allowed.*
- CLTV is the first lien amount plus the unpaid balance(s) of the subordinate liens (if multiple second liens/HELOCs, the sum of all unpaid balances)
- HCLTV is the first lien amount plus the unpaid balance of a closed end second, plus the HELOC’s maximum line amount.
- Subordinate financing eligibility is based on LTV and HCLTV. See Section 6 Ratios - Liabilities, below, for requirements
- When subordinating an existing HELOC where the maximum line amount has been reduced, a modification agreement evidencing the line reduction is required. **“Freeze or Permanent Reduction Letters” are not accepted.** See Ratios (section 6) for DTI calculations on HELOCs.

## Temporary Buydowns

Not allowed.

## Property Eligibility

### Property Types

#### Eligible

- Attached and Detached SFRs and PUDs
- Detached Condominiums for Primary Residence or Second Homes (*Investment properties not accepted*).
- Attached Condominiums with FNMA project approval or Established Project Criteria
- 2-4 Units (not allowed on second homes; *Refer to section 4 for Rent Loss Insurance*).
- Rural Properties up to 10 acres if >80% LTV; otherwise 20 acres.
- Mixed Use
- Properties with age restrictions are accepted.
- *Log Homes allowed on one-unit Primary and Second Homes: maximum \$417,000 Loan amount; max 75% LTV/CLTV, must have 2 recent sold log home comps; Second homes restricted to purchase or R/T transactions. Note: applies to true log homes (stick-built properties with log-shaped wood siding are acceptable without restriction)*

#### Ineligible

- Non-warrantable Condos, and projects not meeting Established Project criteria
- Manufactured Homes
- Condotels
- Live Work Style Condominium projects
- Condo/PUD Projects with pending litigation-
- Timeshare Units
- Cooperatives
- Houseboats
- Properties with transfer fees that are identified as exceptions on the title commitment
- properties with problem drywall (a.k.a.Chinese drywall)
- Residences lacking full kitchen and bathroom facilities
- Working farms, ranches, orchards and/or commercial operations. *If the property generates any income or expenses, has non-residential outbuildings or evidence of crops or animals on the property, it is ineligible for financing.*
- Properties without a permanent heat source and, if typical for the area, cooling. Properties with permanently attached, professionally installed wall heating units are accepted, provided they are typical and customary in the area, and readily heat the entire home.
- Properties on FNMA's ineligible projects list
- *Deed/Resale restricted properties. Restrictions include those that limit the use of all or part of the land on one or any number of owner characteristics or other requirements, income limits, occupancy, homebuyer status, employment (employer provided subsidy), or resale price.*
- *Leasehold Estates*
- Unique Properties: Dome, geothermal, foundation on stilts, one of a kind luxury residences
- Community Land Trusts
- Properties with Survey exceptions
- Properties located on land that does not allow for access for mortgage servicing purposes (e.g. foreclosure)
- Community or adult living group homes

### Condominium Project Eligibility

- FNMA Limited Review, if allowed by DU (Includes detached, 2-4 unit projects) or full lender review on established projects. "Established Project" means 100% complete AND 90% conveyed AND control of HOA turned over to HOA.
- Condominium projects in litigation are not eligible for HSOA financing.

## Condominium Insurance Requirements

### Walls-in Policy

A "walls-in" (HO-6) condominium insurance policy endorsement is now an Agency requirement, and applies to all conventional loans. This coverage covers fixtures, equipment, and other personal property inside individual units. HSOA must consider this insurance policy as part of the borrower's housing expense in qualification (when the association's master policy does not provide this coverage). If taxes and other insurances are escrowed, the HO-6 insurance premium must be included in the escrow as well.

This applies to all condominium projects with attached units, including two-to four-unit projects, and is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit.

The HO-6 insurance policy must provide coverage in an amount that is no less than 20 percent of the condominium unit's appraised value.

### Condominium Project Replacement Cost Coverage

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in a condo project. An insurance policy that includes either of the following endorsements ensures full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

### Fidelity Bond/Fidelity Insurance

Fidelity Bond/Fidelity Insurance is required for new and established condominium projects with 20 or more units. The HOA must maintain this insurance for all officers, directors, and employees of the association and all other persons handling or responsible for funds administered by the association. The coverage must be no less than a sum equal to three months aggregate assessments on all units plus reserve funds, unless a lesser amount is allowed by state law.

Projects typically require two separate fidelity insurance policies: one for the HOA and a separate one for the management company. The homeowners' association must have blanket fidelity insurance coverage for anyone who handles or is responsible for the homeowners' association funds that it holds or administers, whether or not that individual receives compensation for services. The insurance policy should name the homeowners' association as the insured. A management agent that handles funds for the homeowners' association should be covered by its own fidelity insurance policy, which must provide the same coverage required of the homeowners' association.

### Hazard insurance requirements for all loans

Hazard insurance coverage must have either guaranteed replacement coverage or 100% of the insurable value - with evidence from the insurance company as to the insurer's determination of value.

### Rural Properties

- A rural area relates to the country or anything beyond the suburban area.
- Working farms, ranches, orchards, and/or commercial operations are not permitted.
- Properties with outbuildings require special consideration.

Properties with *minimal* outbuildings, such as a small barn or stable that are of relatively insignificant value in relation to the total appraised value are acceptable if they are typical residential improvements and support the residential use for the location and property type. Comparable sales with similar improvements should show they are typical and have an existing market. A property with an atypical minimal outbuilding is still acceptable as long as the appraiser's analysis reflects little or no value for it.

Properties with *significant* outbuildings must be reviewed with great care, regardless of whether the appraiser assigns any value to them or not. Their existence may indicate the property may be used for agriculture or other income producing purposes.

### Mixed Use Properties

Considered on 1-unit owner-occupied transactions operating a sole proprietorship out of the home. Property must have had minimal structural modifications to accommodate the business purpose. Business use cannot exceed 25% of the improvements or the property.

Mixed use properties may require additional comparables to support the appraiser’s conclusion that the property is primarily residential, the value is based on residential use, and there is a ready acceptance in the area marketplace of such properties as residences.

At least three of the following comparable sales listed in the report must be:

- Similar to and located near the subject.
- Recently sold (if the sale of the comparable property occurred more than 6 months before the date of the appraisal, the appraiser must justify in the appraisal report the use to the comparable property).

### Geographic Restrictions

Eligible in all communities nationwide, subject to the following limitations:

*The following counties in Florida are ineligible for financing: Broward and Miami-Dade. The following restrictions also apply for properties located in Florida:*

- No 2-4 unit properties
- Condominiums: see grid below

Florida — Established Condo Projects	
	Maximum LTV/HCLTV
Principal Residence	70% with >=740 credit score
Second Home	60% with <740 credit scores
Investor	Not Eligible
Additional requirements:	Established project review required on projects with >4 units (Limited review not accepted)  QC Prefunding review required on all loans with attached condominiums

- *Properties in Rhode Island and Michigan are not accepted on wholesale loans.*
- *Properties subject to right of redemption*
- Hawaii properties located in Lava zones 1 or 2 are not eligible.
- **Loans requiring mortgage insurance are subject to additional restrictions; refer to current soft market policies available on the MI company website.**

### Home Inspections

Home inspection Reports are required on conventional loan purchase transactions when a Home Inspection Report is a contingency of the purchase contract. This applies to all inspection purposes, including Home Inspections or specific purpose inspections such as roof, electrical or mechanical, radon, termite or other insects, foundation, or structural inspection.

The underwriter should condition the loan for repairs or addition inspections only those inspection report items that indicates major repair/condition deficiencies or health and safety concerns.

If significant items are indicated on the Inspection report, a copy is to be provided to the appraiser, who should acknowledge reviewing it and address those items as to any value or condition adjustments being necessary

## **Borrower Eligibility**

### **Occupancy**

Owner Occupied, Second Homes & Investment. *If the transaction is the purchase of a principal residence, but a previous mortgage transaction within the past 12 months was also the purchase of a principal residence, the borrower must provide some reasonable documentation to justify the new transaction (e.g. a letter of explanation and/or other acceptable documentation). Acceptable documentation is required to confirm the applicants' intent to occupy the property as their principal residence if there are any address discrepancies or "red flags" that would imply occupancy other than indicated.*

*Second homes must be in vacation/resort areas.*

*Maximum of 4 borrowers are accepted on any loan transaction.*

### **Investment Properties**

- *See Rental income in Section 4 for details on accepting rental income.*
- *Distant Properties: Purchases and refinances of properties owned less than one year should be within 50 miles of borrower's primary residence. Exceptions considered for borrowers with a two year history of owning and managing rental properties. On refinances of distant properties, document 12 months prompt mortgage payments if file documentation does not include tax returns covering a full calendar year of ownership).*
- *Properties occupied by others, including family members, must be considered classified as Investment properties. Rental income from a family member is not accepted, unless documented per tax returns.*

### **First Time Homebuyers**

*Defined as not having owned a home for the past 3 years, or for less than one year on current residence. Not eligible for 3-4 unit properties, second homes, or investment properties.*

### **Borrower Eligibility**

<b>Borrower Type</b>	<b>Requirements</b>
All borrowers, including U.S. Citizens.	Borrowers must have a social security number and which must be on all applicable income, asset, or credit documentation contained in the loan file.
Permanent Resident Aliens	Eligible under same conditions as a U.S. Citizen. Permanent Resident Alien Card (Green Card) required.
Non-Permanent Resident Aliens	Eligible under same conditions as a U.S. Citizen. Legal resident with valid social security number, employed in U.S. ITIN not acceptable.

### **Non-Occupying Co-Borrowers**

Allowed on primary residence transactions only. If there is a non-occupant co-borrower, the transaction must meet the following requirements:

- **Purchase Transaction Assets**– If the LTV is greater than 80%, the owner-occupant must have 3% for 1 unit OO purchases, 5% for all other transactions.
- **Qualifying Ratios** – The owner-occupant must qualify without the benefit of the non-occupying co-borrower income, as accepted by DU. DU does not recognize income or liabilities from non-occupying co-borrowers.
- **LTV** – LTV/CLTVs greater than 95%, transaction must be a purchase or R/T of a one-unit owner occupied property.

Non-occupant co-borrowers are not allowed on Texas (a)(6) loans. Any consumer initiated conveyances of the property adding new owners on a Texas (a)(6) must be completed at least 12 days prior to closing. Additionally, the new owners must receive the "Notice Concerning Extensions of Credit" at least 12 days prior to closing.

## **Title Vesting**

Title may be held as individuals, or in a FNMA-eligible revocable living trust. Vesting as a corporation, LLC, Conservatorships, Partnership, Land Trust, Nominee Trust, irrevocable trust, or otherwise not eligible for financing by FNMA, is not accepted.

If title vesting is in a trust:

- *The trust may be the only title holder. A Trust in title jointly with an individual or another Trust is not allowed.*
- *Accepted on all occupancies and number of units.*

## **Transaction Requirements**

### **Chain of Title**

24 month chain of title is required, indicating buyers, sellers, and transfer date/instrument recording date. This may be provided within the title commitment/prelim or by Dataquick or other HSOA acceptable property searches.

The transfer sales price information is required for all transfers in the past 24 months if there were transfers within the first 12 months. This information can be obtained from any HSOA acceptable source, including but not limited to: public records, the subject property appraisal, or AVMs.

### **Flipping Restrictions**

***The following restrictions apply to all transactions except properties being sold by the foreclosing institutional lender.***

*Notes: Seller's ownership must be recorded on title.*

*Date comparison will be from seller's acquisition date to the earliest of the purchase contract, application/origination date, or case assignment date (FHA and VA Loans).*

*If the recording date of seller's acquisition is delayed beyond normal recording office delays (generally more than 45 days), underwriters may require 90 days from recording date, or additional documentation to prove the actual date of deed transfer (ex: settlement statement and proof of funds being paid).*

#### **Owned <= 90 days:**

- *Maximum 10% increase without documented improvements*
- *Maximum increase of 20% or \$100,000, whichever is less, with documented improvements.*
- *Transactions with sales price greater than or equal to a 20% increase over seller's acquisition cost are generally not allowed. On a case-by-case basis and subject to second-level review, allowing a larger increase may be considered, with the following items reviewed:*
  - *Cost and scope of documented improvements made*
  - *CitiCorelogic AVM determination*
  - *Stability of the neighborhood, particularly the frequency of foreclosures and short sales*
  - *Identify of seller*
  - *Details about all comp sales, especially information if the comparables uses were also recent re-sales, especially by LLCs*
  - *Overall risk of the transaction*
  - *Subject property's value relative to neighborhood value ranges*

***Regardless of who the property seller is, if the resale occurs within 0 to 90 days, all transactions must be arms-length; no identity of interest between buyer, property seller or third parties.***

*Specific ways to ensure an arms-length transaction include:*

- *Seller holds title to the property*
- *LLCs, corporations or trusts serving as property sellers must meet all applicable state and federal law.*

- No pattern or previous flipping activity exists on the property (as evidenced by multiple title transfers within 12 months).
- The property was marketed openly and fairly (Any sales contracts with “assignment of contract of sale” is not allowed).

**Owned 91 days-One year:**

If the price increase is greater than 20%, the appraisers should provide a summary of the project improvements and costs, and pictures of the significant improvements made. Greater flexibility will be considered for those transactions that are nearing the one year mark and/or with less significant increases. Underwriters should consider the amount of undocumented price increase as a factor in reviewing the overall transaction. Second level review required to assure appropriate flexibility is applied.

**Owned less than 181 days and >80% LTV:**

Loans must be submitted to the mortgage insurance company; ‘delegated MI’ is not allowed.

Extra due diligence is required whenever the seller is an LLC. The overall transaction risk must be prudently evaluated; if multiple risk layers are present, the transaction is ineligible.

**For Sale by Owner and Non-Arms Length (FSBO and NAL) with short-sales and flips**

- FSBOs are prohibited on transactions involving short-sales or flips
- Reminder: NALs are prohibited on transactions involving short-sales or flips
- All other FSBO or NALs require QC pre-funding review and acceptance, as indicated below

**Non-Arm’s Length/Interested Party and Familial transactions**

This matrix lists various family and non-family scenarios and their acceptance.

Relationship	Acceptance
<b>Family-related transactions</b>	
Employed by family member	Allowed  Provide most recent pay stub and 2 years most recent personal tax returns with all W-2s <b>Two years tax returns (and the time period after the most recent tax returns) must reflect continuous employment by the current employer.</b>  When employed by family members, ownership in the family business must be documented, regardless of the ownership percentage. Not considered as self-employed unless they have >=25% business ownership
Buying from family member, including purchasing from the estate of a relative, fiancé, fiancée, domestic partner, or other individual related to borrower by blood, adoption or legal guardianship.	Allowed, subject to: <ul style="list-style-type: none"> <li>• owner-occupied or second home transactions</li> </ul> No DU appraisal or documentation relief (must have a full appraisal, 2 years income verified, 2 months asset verification)
Buying from and employed by family member	<i>Not allowed</i>
Borrower is employed by submitting broker Or Borrower is mortgage lender employee and was involved in the origination/processing of the loan	Not allowed
Borrower is employed by the lender and was not involved in the origination/processing of the loan	Not Allowed
Borrower is related to mortgage broker or	Allowed, provided the applicant is not the broker/originator’s spouse

lender originator/processor	
Realtor is representing buyer and seller	Allowed
Realtor is representing buyer and seller, and is related to –or affiliated with – the seller	Reviewed case by case; pre-funding QC is required
Seller is also the realtor	Allowed, provided the realtor is not also representing the buyer
Borrower is related to the realtor, or Seller is related to the realtor or Seller is related to the originator	Allowed
Occupancy and relationship between buyer and seller	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.
<b>Non-Family transactions</b>	<b>The following scenarios are considered Non-arms-length; where allowed, due diligence to affirm transaction veracity is required</b>
Interested Party: Employed by someone with an interest in the property	Allowed, subject to: <ul style="list-style-type: none"> <li>• owner-occupied or second home transactions</li> <li>• No DU appraisal or documentation relief (must have a full appraisal, 2 years income verified, 2 months asset verification)</li> <li>• Pre-funding QC required</li> </ul>
Interested Party: Borrower is <u>related to</u> someone with an interest in the property	Prohibited Not allowed if the builder, property seller, and/or any party currently on title on the subject property is any of the following: <ul style="list-style-type: none"> <li>-A company owned by the borrower</li> <li>-A borrower who is related to the builder, property seller, or any party currently on title as a: <ul style="list-style-type: none"> <li>o Registered agent</li> <li>o Sales agent</li> <li>o Partner</li> </ul> </li> </ul>
Corporate sales or transfers	Allowed, provided it is a bona fide sales transaction and the borrowers will occupy the property as their primary residence.
Non-family relationship with Builders or developers.	Allowed, subject to: <ul style="list-style-type: none"> <li>• owner-occupied or second home transactions</li> <li>• No DU appraisal or documentation relief (must have a full appraisal, 2 years income verified, 2 months asset verification)</li> </ul>
For Sale by Owner transactions	Allowed, subject to: <ul style="list-style-type: none"> <li>• owner-occupied or second home transactions</li> </ul> No DU appraisal or documentation relief (must have a full appraisal, 2 years income verified, 2 months asset verification)
Transactions involving principals of a lender, broker, or other vendor (such as an appraiser, settlement agent, title company)	Allowed case-by case on primary residence transactions. Pre-funding QC required
Renters buying from landlord.	Allowed, subject to: <ul style="list-style-type: none"> <li>• owner-occupied or second home transactions</li> <li>• No DU appraisal or documentation relief (must have a full appraisal, 2 years income verified, 2 months asset verification)</li> </ul>
Trading properties with the seller (who is not a builder/developer)	Allowed
Trading properties with a builder/developer	Allowed

## Refinances of ‘Hard-money’ loans

Refinances to pay off hard-money loans, particularly when the financing included rehab funds, may be deemed ineligible as existing first liens.

## Seasoning

- Current value will be utilized. If the current value reflects a significant increase since a recent purchase, the increase must be documented and supported.
- Cash out refinances during first 6 months of ownership is not allowed (ownership date to earliest date of new application documents), except for Delayed Financing Cash Out Exception, below

## Delayed Financing Cash Out Exception

A cash-out refinance within six months of a purchase transaction when no financing was obtained for the purchase transaction is allowed under the following parameters:

- Corelogic pass
- The new loan amount is not more than the actual documented amount of the borrower’s initial investment in purchasing the property (purchase price, not subsequent improvements), plus the proposed loan’s financing of closing costs, prepaid fees, and points (subject to the maximum LTV, CLTV, and HCLTV ratios for the transaction).
- The purchase transaction was an arms-length transaction.
- The purchase transaction is documented by the HUD-1, which confirms that no mortgage financing was used to obtain the subject property. The preliminary title search or report must also confirm no liens on the subject property.
- The source of funds for the purchase transaction can be documented as from an acceptable source (borrower’s bank statements, secured personal loan documents, HELOC on another property). Any loans used as the source for the purchase transaction will be required to be repaid on the new HUD-1.
  - Unsecured personal loans or gift funds are not acceptable sources.
- All other refinance eligibility requirements, including cash out requirements and Continuity of Obligation, are met and cash-out pricing is applied.
- The six month eligibility is measured from the purchase closing date to the date the new application started. **If the time frame exceeds 6 months, second home and investment properties are NOT eligible for cash out under Home Savings Direct. Refer to the Conforming Fixed and ARM Product Summary for options.**
- Note: for this exception, the DU finding prohibiting cash out during the 6 months of ownership may be ignored. Underwriters are to notate the 1008 that the loan is eligible for the Delayed Financing criteria.

Borrowers who have taken a cash-out loan on the subject property within the last 6 months (funding date to earliest date of new application documents) follow the following guidance for the new transaction:

Loan being paid off was a refinance that is less than 6 months old, and:	Proposed loan	Action required
Provided cash out	R/T	Transaction coded as R/T
	Cash out	Transaction coded as cash out
Was Rate/Term	Cash out	Transaction coded as cash out
	R/T	Transaction coded as R/T

## Properties Recently Listed for Sale

Refinances on properties currently listed for sale are not permitted. If the listing was cancelled prior to the date of loan application and appraisal:

- Rate/Term transactions are allowed without further restrictions.
- On cash out transactions, the listing agreement must be cancelled six months prior to the application date, or the loan is limited to 70% LTV/CLTV.

## Continuity of Obligation

Loans with acceptable continuity of obligation may be underwritten and priced as rate-and-term or cash-out refinances according to the standard definitions. An acceptable continuity of obligation exists when:

- There is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced, or
- The borrower has recently inherited or was legally awarded the property (for example: divorce or separation), or
- The borrower has been on title and residing in the property for at least 12 months, and has either paid the mortgage for the last 12 months (cancelled checks required as proof) or can demonstrate a relationship (immediate relative, domestic partner) with the current obligor, or
- The loan being refinanced and the title to the property are in the name of a natural person or a business entity in which the borrower is personally liable for the business debts (limited liability company Sole proprietor (LLC), Sole Proprietor, or Partnership), provided the borrower(s) was an LLC member(s), or Partner prior to the transfer.
  - Note: Title may be transferred from the business entities listed above to the borrowers (or eligible Trust) concurrently at closing. A loan obligated by the corporation (loan solely in the corporation name) does not meet the continuity of obligation requirement.

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or there is no outstanding lien against the property, the loan must be underwritten and priced as a cash-out refinance transaction. Additionally, the following restrictions apply:

- Loans with no outstanding liens:
  - Property purchased within the past 6 months are not eligible(not applicable to Delayed Financing cash out exceptions which are allowed)
  - Property purchased within six to 12 months prior to the application date for the new loan transaction: The loan-to-value is based on the lesser of the original sales price (documented by the HUD-1 Settlement Statement) or the current appraised value. Borrowers that took title via quit-claim deeds or other non-purchase deed transfers are NOT eligible.
  - Property was purchased more than 12 months prior to the application date for new loan transaction; the current appraised value is used to calculate the loan-to-value.
- Loans with outstanding liens but with no continuity of obligation:
  - at least one borrower must have been on title for at least six months, and the maximum loan-to-value (based on the current appraised value) is 50%.

## Netting escrows prohibited

Rate/Term refinances cannot include the netting of impound/escrow balances as a credit on the HUD-1. In all cases, the payoff demand amount due (for eligible items) must match the payoff on the HUD-1, the amount wired to the current servicer, and the amount used by the underwriter in calculating the maximum mortgage. There must be no credit for the balance of the impound balance as a separate HUD-1 entry.

## Rate/Term Refinance

A rate and term refinance is a new mortgage loan that pays off in full the sum of the liens noted in the following. It is acceptable to include closing costs, discount points, prepayment penalties, and any prepaid items, such as hazard insurance and property taxes for the current year, as part of the transaction.

*The inclusion of any delinquent property taxes or HOA dues in the loan amount is not allowed on a rate and term refinance.*

- Unpaid principal balance of an existing first lien
- Junior liens that were used for the original purchase of the home.

Other than payment of the first and eligible second liens and closing costs, incidental cash back may not exceed the lesser of 2% of the principal amount of the new mortgage or \$2000.

Properties located in Texas – borrower must receive no cash back at closing. DU Refi Plus loans (in all states except Texas) may not receive more than \$250 cash back.

## **Cash out Refinance**

A cash out refinance involves a new mortgage loan in which the cash back exceeds the lesser of 2% of the new mortgage principal balance or \$2,000 and is used to pay off the unpaid principal balance of the existing first mortgage and the amount required to satisfy any outstanding subordinate mortgage liens, no matter how old. Any additional cash back received may be used by the borrowers for any purpose. A statement from the borrowers disclosing the purpose for the cash out is required. There is no limit to the amount of cash back on an owner occupied one-unit property. For all other occupancies and properties, HSOA reserves the right to limit the amount on a case-by-case basis.

It is acceptable to include closing costs, discount points, prepayment penalties, and any prepaid items, such as hazard insurance and property taxes (current and previous year), as part of the transaction.

## **Land Contracts/ Contract for Deed**

A land contract, also known as an installment land contract, contract for deed, contract sale, contract purchase, or in Hawaii, an Agreement of Sale, is a form of seller financing in which the seller retains title to the property while the buyer makes regular payments to the seller. Once the buyer pays the number of payments and/or amount specified in the contract, the seller conveys title to the buyer. A mortgage in which the proceeds are used to pay the outstanding balance of a land contract or contract for deed will be viewed as follows:

### **Land contract dates and recording information**

- **Contracts not recorded:**  
Not accepted
- **Contracts recorded within 30 days of the contract execution date:**  
Contract must have been executed at least 12 months prior to the subject property application date, and 12 months payment history provided
- **Contracts with recording dates delayed more than 30 days**  
Must be 12 months from recording date to subject property application date, and 12 months payment history provided since the recording date

### **Land Contracts less than 12 months old**

As indicated above, not accepted by HSOA, due to systems issues and quality concerns

### **Land Contracts at least 12 months old**

If the land contract or contract for deed was executed more than 12 months preceding the mortgage application date, Rate/Term refinance transactions will be considered. Loan proceeds may be used only to pay off the land contract.

### **Documentation requirements for all land contract transactions**

A copy of the executed land contract is required, and

Standard verification showing the borrower has been making the payments. Verification includes:

- Private party lender: most recent 12 months cancelled checks.
- Institutional lender: Evidence of timely repayments on the credit report. Verification of Mortgage (VOM) is not required if this evidence is shown on the credit report.

### **Purchase transactions where the seller is a land contract buyer (not fee ownership)**

These transactions, including those with recorded land contracts, are considered a double escrow and are not accepted. The property seller must be in fee ownership.

## **Texas Owner Occupied Refinances**

**See Texas Owner Occupied Refinance Overlay for additional details and requirements; however, Texas equity 50(a)(6) transactions are not allowed.**

## Financed Properties

Maximum number of residential properties owned by borrower with outstanding mortgage liens

Occupancy Type	Total Financed Properties
Primary Residence	unlimited
Second Home or Investment Property	10 (if 5-10, must follow specific requirements as outlined above)

## Seller/Interested Party Contributions

Maximum allowed is listed below, not to exceed the actual charges for:

- non-recurring closing costs
- prepaid escrows - provided escrow/impounds are established for taxes, insurance and mortgage insurance.

Payment of future HOA dues is an allowed Seller/Interested party contribution.

### Borrower must pay the per diem interest collected at closing.

The sales price on a finalized purchase contract cannot be increased to cover closing costs. The LTV/CLTV must be based on the lesser of the original sales price or appraised value if there is evidence in the loan file that the sales price was increased to include the borrowers closing costs.

Occupancy	CLTV	Maximum Seller Contributions
Owner Occupied	>90%	3%
	<=90% and >75%	6%
	<=75%	9%
Second Home	>90%	3%
	<=90% and >75%	6%
	<=75%	9%
Investment	All LTVs	2%

## Exposure Limitations

The policy on mortgage ownership limits is designed to protect the company from excessive risk exposure with the same borrower.

- HSOA will finance up to 3 properties (including the subject property) at conforming loan limits,
- *Maximum 20% concentration in any one project or subdivision.*
- New multiple loans must be underwritten simultaneously.
- If the aggregate dollar amount of all loans to one applicant from HSOA (including the amount of the new loan) exceeds \$1,000,000, the loan request may require approval by Credit Policy.

## 2. Documentation

### Underwriting Decision

All loans must be run through FNMA's automated underwriting engine (DU) and receive an Approve/Eligible recommendation, utilizing DU 8.2 or DU 8.3. EA recommendations are not eligible.

### Fannie Mae Guidelines.

All loans must meet Fannie Mae and HSOA guidelines. Loans that are underwritten using DU must be documented according to the requirements of the findings report.

#### Exceptions:

- *See Rent Loss insurance requirements (section 4)*

- A 4506-T must be executed before closing, with findings acceptably validated. An additional 4506-T must also be signed at closing.
- YTD P&L and balance sheets for applicable year(s) are required on self-employed borrowers whenever the closing date is more than 90 days after the most recent tax returns.\*
- See Section 7-Appraisal Forms for exceptions to following DU appraisal requirements.

**Risk-Layering: Regardless of the DU findings, underwriters are responsible for determining the overall transaction risk. If multiple risks are present, the transaction should not be approved.** Late payments are considered accounted for in the credit score. However, the following items are subject to individual evaluation, no matter how high the credit score:

- Judgments, collections, charge-offs, tax liens.
- Bankruptcy

Foreclosure including deed-in-lieu, and short sales, Notice of Default, 120-day late, Mortgage late payments – 0x60 in the last 12 months. Foreclosure rules apply to any property owned or occupied by the borrower (except for renting from a landlord), or properties owned or occupied by other parties on title to the subject property

#### Signed Tax Returns Defined

References to signed returns means either copies of signed federal tax returns or tax returns that have been validated via a IRS 4506T.

#### **Age of Documentation**

90 days for all documents as of the closing date (date the Note is signed. In addition:

- Paystubs must be dated no earlier than 30 days prior to the initial loan application date. The pay stub must include all YTD earnings, and must include sufficient information to appropriately calculate income; otherwise additional documentation must be obtained. For DU 8.1 transactions, the paystub must include at least 30 days of YTD earnings.
- Monthly bank statements must be dated within 45 days of the initial application date.
- Updated credit reports are required when the existing credit report is expiring, or when there are material changes to the reported information. HSOA will NOT accept an updated credit report solely because the credit score has improved.
- See below for 1004D updates

#### **1004D, Part A: Appraisal Updates**

If the original appraisal report will be more than 90 days old at Note date, but less than 120 days, either a new appraisal or a Form 1004Dis required. If a Form 1004D is being used, it must include:

- A determination on whether or not the property value has declined
- **Note:** If the appraiser determines that the value has declined, a new appraisal is required and the loan must be re-underwritten using the new value.
- An indication there has been an exterior inspection of the property
- Comments on any market changes

If an appraiser other than the original appraiser completes the re-inspection:

- The file must contain documentation specifying the reason why the original appraiser was not used
- The substitute appraiser must review the original appraisal and comment on whether the original appraiser's opinion on market value was reasonable on the date of the original report.

**Property Inspection Report (Form 2075):** If the report will be more than 90 days old from the Note date, but less than 120 days old, the appraiser must re-inspect the property and prepare a new Property Inspection Report [Form 2075)

#### **Notes – applies to 1004D and 2075s:**

- If the original appraisal/2075 is more than 120 days old, a new appraisal is required. The 1004d/update 2075 must be completed before the original appraisal/2075 is 120 days old.
- The 1004D/updated 2075 is valid for 90 days.

**Property Inspection Waiver (PIW)** is valid for 120 days. If the PIW will be more than 120 days old at the Note date, re-run DU to confirm the waiver is still valid.

## **Project Questionnaires**

Project Questionnaires are required on all condominiums and attached PUDs. HSOA forms are provided on the HSOA website at [www.myhsoa.com/broker\\_login/broker\\_resources.php](http://www.myhsoa.com/broker_login/broker_resources.php). Competitor forms are accepted, provided they contain all the required information.

## **3. Credit**

### **Credit and Credit Scores**

All borrowers must have a minimum representative credit score of at least 620, except where a higher credit score requirement is indicated throughout this Product Summary, or as may be required by the mortgage insurance company.

### **Minimum trade lines**

Each borrower must have sufficient credit depth of their own trade lines to generate approve/eligible findings from DU.

Loans with MI: loans must meet the MI company minimum trade requirements, which generally are a minimum of three open and active tradelines with 12 months history; minimum 2 scores per borrower. If authorized user accounts are present, see comments in Section 5 Ratios, under liabilities.

### **Borrower Representative Score:**

- If a total of 3 scores are obtained for a borrower, the designated score for that borrower shall be the middle score.
- If a total of 2 scores are obtained, the lower score will be the designated score for that borrower.\*
- If one score is obtained, use that score\*

### **Loan Representative Score:**

- If there are co-borrowers on the loan, the credit score applicable to the loan itself will be the lowest of the respective borrowers' scores.

\*Credit report must indicate all 3 repositories were accessed and the score was not available.

### **Derogatory Credit information**

The lender must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the borrower has re-established an acceptable credit history. The lender must make the final decision about the acceptability of a borrower's credit history when significant derogatory credit information exists.

If not clearly identified in the credit report, the lender must obtain copies of appropriate documentation for the significant derogatory credit event. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or preforeclosure sale; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

### **Non-borrowing spouse credit concerns**

If the non-borrowing spouse has a foreclosure, short sale, pre-foreclosure, short payoff, re-structured debt within the prescribed time limits, and:

- Property was acquired prior to the marriage and the borrower was never vested on title, and never occupied by borrower: not a credit concern.
- Property was acquired during the marriage or the borrower was added to title: reviewed case by case, but generally are treated the same as if the borrow was obligated.

## Bankruptcy

For all bankruptcy types, the time period required to reestablish credit is measured from the bankruptcy discharge or dismissal date to application date.

For Chapter 7 and Chapter 13, the time period since bankruptcy is four years.

## Multiple Bankruptcy Filings

For borrowers with multiple bankruptcy filings during the last seven years, a five-year seasoning from the most recent discharge or dismissal date to application date is required to reestablish credit.

## Foreclosure

Borrowers with a past foreclosure: the time period required to reestablish credit is 7 years from the foreclosure completion date to application date.

## Short Sales, Short Pay-offs or Re-Structured Debt

For borrowers who sold *or refinanced (or are selling or refinancing)* a property for less than the amount owed on the mortgage (as agreed to by the lender, investor, and mortgage insurer), the minimum time since the completion of the event to the application date is based on LTV/CLTV-HCLTV as indicated below. Payment history cannot have had any mortgage lates in the 12 months leading up to the payoff date.

- 4 years – 90% maximum LTV/CLTV-HCLTV (not to exceed the maximum financing allowed by eligibility criteria)
- 7 years – maximum financing accepted

## Deed-in-Lieu of Foreclosures

For deed-in-lieu of foreclosures, the time period from the completion date or the date the deed-in-lieu was executed, is 4 years. However, additional requirements apply after 4 years and up to 7 years following the completion date:

- For purchase transactions, the borrower must contribute the greater of 10% minimum down payment or the minimum required for the loan program (no gifts). The borrower must have the greater of a 680 credit score or the loan program minimum.
- For rate and term and cash-out refinances, the time elapsed must be 7 years or greater.

## Pay-off Demand Statements

Current pay off demand statements are required on all refinances, and must show that the loan:

- is not 30 days delinquent
- does not contain charges associated with default/forbearance
- does not indicate a curtailment of principal/interest (e.g. short pay)
- meets the program requirements for mortgage delinquencies
- Payoff demand expiration date requirements are as follows:

Borrower made the previous month's payment (disbursing in December, borrower has made the November payment):

- HSOA must obtain an updated payoff demand if the loan proceeds will be disbursed after the payoff demand expiration date.

Borrower made the current month's payment (disbursing in December, borrower has made the December payment):

- Payoffs that expire during the funding month; acceptable to add the per diem through the end of the month, without HSOA obtaining a payoff demand update.

In all cases:

- Closing agent must confirm the payoff demand amount with the existing lender; if any changes, notify HSOA prior to closing the loan and disbursing funds;
- Closer/Funder must compare payoff demand amount to the demand in file, return to underwriting for adjustments if the payoff amounts changed (unlikely to occur).

**Reminder:**

- **Be sure the payoff calculation includes the appropriate per diem charges through the closing agent's disbursement date.**
- **Payoff demand expiration dates and the number of days of per diem interest are to be based on the date when the closing agent disburses funds (not HSOA closing or funding date).**

### **Credit Inquiries**

If the credit report indicates that a creditor has made an inquiry (other than the inquiry by the originator for the subject transaction) within the previous 120 days from the credit report date, a letter from the creditor or signed statement from the borrower is required to determine if additional credit was obtained. Any new debt must be included in qualifying the borrower. *The borrower letter must specifically address both the purpose and outcome of each inquiry individually.*

### **Judgments, Garnishments and tax liens**

All judgments, garnishments and/or liens must be fully satisfied prior to or at the time of closing. The borrower must provide satisfactory written explanation along with any supporting documentation, as needed, including verification of funds sufficient to satisfy these obligations. Loan proceeds may be used to pay off judgments or tax liens on cash out transactions.

### **Disputed Trade lines**

This applies to transactions where DU findings include a requirement to address disputed trade lines. If DU does not require the dispute to be addressed, no action is necessary.

If the tradeline **does not** belong to the borrower, or the reported payment history is **inaccurate**, written documentation is required to evidence the erroneous information. Under these circumstances, when the information is validated, DU may require no further action.

If the tradeline **does** belong to the borrower and the reported payment history is **accurate**, the disputed tradeline(s) must be considered in the credit risk assessment. To ensure the disputed tradeline is considered by DU, a new credit report must be obtained with the tradeline no longer reported as disputed and resubmitted the loan casefile to DU.

### **Manual Underwrite for Disputed Trade lines Temporarily Unavailable**

## **4. Employment/Income**

### **Verification of Employment (VOE)**

Follow DU for documentation requirements, subject to the following:

- If a written VOE is utilized for current employment, it must be accompanied by a computer generated pay stub showing YTD income, with all information consistent with the VOE.

### **Bonus, Overtime, Part-time, Seasonal, or Tip Income:**

When these sources are included in qualifying, DU will refer to the FNMA Seller's guide for documentation, which is as follows:

Whenever bonus, overtime, part-time, seasonal or tip income is used to qualify, provide:

- Written VOE with YTD and 2 year history of receipt of income type broken out from base income, and with employer confirming likelihood of continued receipt.
  - If employer indicates “N/A” or “Does not verify” on Written VOE or for electronic VOEs like the Work Number, this is acceptable, provided the underwriter adds notes to the 1008 that employer does not verify the continuance of the type of income.
  - If employer indicates income is “not likely” or “will not continue”, that income type may not be used in qualifying.
- YTD pay stub
- Last 2 years W2s to document consistency of the written VOE and receipt of the bonus, OT, part-time or seasonal income.

**Verbal Verification of Employment (VVOE)**

HSOA will obtain a verbal confirmation of current employment or self-employment within 5 business days prior to funding the loan.

**Self-employed borrowers**

**Follow DU Requirements, plus provide a YTD P&L and balance sheet if more than 90 days has transpired since the last filed tax return.**

**Verbal VOE requirements for self-employed income:**

HSOA must verify the existence of the borrower's business

- from a third party, such as a CPA, regulatory agency, Secretary of state office, or the applicable licensing bureau, if possible; **and**
- by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance. Other examples include – when accompanied by a borrower explanation as to how they conduct business and obtain clients without a publicly available phone number, cell phone bill showing a business name, client reference letter, copy of recent newspaper advertisement.

**FNMA 1084 Self-employed Income Analysis form**

Submission documents for self-employed borrowers are to include a completed 1084 form, which will show the calculations for determining a borrower’s self-employed income.

**Foreign Source Income**

Provide copies of signed federal income tax returns for the past two years, W-2s and YTD pay stub, with the entire time period reflecting the foreign income source. Note: All income must be translated to U.S. dollars. This applies to income:

- from a foreign or US corporation, or foreign government, or
- paid in foreign currency.

**Rent Loss Insurance**

*Required on all subject property 1-4 unit investment properties and 2-4 unit owner occupied properties where rental income is used to qualify. This insurance covers the borrower for rental. The minimum amount is 6 months of the gross monthly rent, with coverage listed on the insurance binder/policy.*

**Rental Income**

Topic	Rental income is from:		
	Subject property owner occupied 2-4 unit	Subject property 1-4 investment	Other real estate owned
Landlord experience	None	1-4 financed properties: as required by DU	

<b>required</b> (applicable if rental income is needed to qualify)		5-10 financed properties: <i>two year history of owning and managing rental properties, as evidenced by the most recent 2 year tax returns showing continuous ownership of rental properties for the entire 2 year period.</i>  <del>If rental income has not yet been reported on tax returns because the properties were acquired subsequent to the last tax filing, leases may be used to document rental income</del>	
<b>Rental Income Documentation Required</b>			
<b>Purchase</b>	If rental income is needed to qualify, document with fully executed lease agreement; and the receipt of a security deposit and rent checks from the tenant and deposit into the borrower's account.	N/A	
<b>Most recent tax returns reflect a full or partial year ownership</b>	Tax returns		
<b>Property was acquired after most recently filed tax returns</b>	Fully executed lease agreement with canceled security deposit and rent checks deposited into borrower's account.		
<b>Calculating rental income</b>			
	Purchase: 75% of the monthly lease amount added to borrower's income.  Refinance: tax returns or leases as per above and as required by DU	<p><b><u>Purchase and transactions where property was acquired after most recently filed tax returns:</u></b> Subtract mortgage payment from 75% of the rental income.</p> <p><b><u>For properties currently owned, DU determines the number of years of tax returns to use</u></b></p> <p>Complete the Rental Property Cash Flow Analysis Form, or the Self-employment analysis, FNMA Form 1084 section for Schedule E income; using one form for each property reflected on the tax return, and making the same adjustments for current PITI as is reflected on the Rental Property Cash Flow Analysis Form.</p> <p><u>Partial year ownership - for properties purchased or sold during the calendar year</u></p> <p>Calculating monthly income off tax returns:</p> <ol style="list-style-type: none"> <li>a. Property purchased during the year: divide the income/loss by the <b>number of months owned</b></li> <li>a. Property no longer owned: remove that property's income/loss from the calculations.             <ul style="list-style-type: none"> <li>• If the tax returns reflect the property as having been sold, no further documentation is required.</li> <li>• If the property was sold after the last tax returns, provide HUD-1 to document proof of sale.</li> </ul> </li> </ol> <p><u>Summary:</u> If positive net rental income, add to income; if negative, add as a long term debt.</p>	
<b>Other requirements</b>			
<b>Appraisal requirements</b>	FNMA 1025 with 216 - Operating	FNMA 1004 with 1007 and 216, or 1025 with 216	N/A

	income statement	<p><u>Rental income is used in qualifying</u> The operating income statement is required on all 2-4 unit properties, and all one-unit rental properties. The comparable rent schedule is required on all one-unit rental properties.</p> <p><u>Rental income is not used in qualifying (not applicable for manual underwritten loans):</u> <b>Follow DU</b></p> <p>Underwriter signature is required on the 216 form if they make revisions.</p>	
<b>Rent loss insurance</b>	<i>Required on all subject property 1-4 unit investment properties and 2-4 unit owner occupied properties where rental income is used to qualify.</i>		N/A

### Documentation Consistency in all Scenarios

Documents in the file must be consistent. When the loan file contains operating income statement, the income approach on the appraisal and/or copies of the present lease(s), they must support the net rental income used to qualify the borrower.

**Rental income from an accessory unit cannot be used in qualifying.**

### Conversion of Primary Residence – aka ‘Departure Properties’

**Note: In all cases when an additional principal reduction is required to attain the 30% equity position; the principal reduction and the documentation of the updated balance must be provided prior to closing the subject property transaction.**

### Conversion of Primary Residence – previously converted transactions

While the expectation is that the ‘conversion’ of primary residences will occur concurrently with the purchase of the subject property, it is not acceptable for borrowers to circumvent the equity of reserves requirement by moving out of their conversion property prior to applying for or closing on the purchase transaction.

- If rental income on the departed property is reflected on the borrower’s tax returns, **and** at least 4 months have passed since the ‘conversion date’ prior to the subject property application/origination process date, follow the DU requirements for non-subject rental properties,
- If the above conditions are not met, then the conversion rules (below) apply. In addition, the following are also required for consideration of accepting rental income:
  - Copy of Leases and proof of receiving security deposits
  - Proof of receiving rents since vacating the property.
  - Document and explain the circumstances that now require a new loan application since the recent conversion
  - Document and explain the reasons for any delays in renting after vacating the property, if applicable.
  - As a reminder, any appraisal used to document the equity position must be dated within 60 days of closing on the new subject property transaction.

### Conversion of Primary Residence – Concurrently funded transactions

#### To determine equity in all scenarios below:

If the departure property is owned free and clear, underwriting will obtain a DataQuick or HistoryPro report on the property to confirm there are no outstanding liens.

For properties with an existing lien, if rental income will be used to offset the mortgage payment, provide an AIR compliant appraisal (2055 with 1004MC accepted on 1 unit non-condo properties)

**Note: Appraisals must be dated within 60 days of closing date**

The Conversion feature applies only to purchases of primary residences; second home and investment properties are not eligible.

Reserve requirements are as listed below, unless DU requires more

Scenario	<30% equity in departure property	>=30% equity in departure property
Departure property is for sale or pending sale but won't close before subject property	6 months reserves on each property  Include both payments in the ratios	2 months reserves on each property  Include both payments in the ratios
Departure property will be a second home		
Converting to an investment property - departure property is a one-unit		2 months reserves on each property  75% of the rent* may be off set if the rental income is documented with: <ul style="list-style-type: none"> <li>• Copy of the fully executed lease agreement and</li> <li>• The receipt of a security deposit from the tenant and deposit into the borrower's account.</li> </ul>
Converting to an investment – departure property is a 2-4 unit home	Same as above, except: for the unit(s) not occupied by the borrower, rent as documented on tax returns may be used to offset the payment.	

*\*Renter cannot be a family member nor someone currently residing in the departure property.*

## 5. Assets

### Borrower Investment

The borrowers must have enough liquid assets to cover the down payment, closing costs, any prepaid items, and reserves as required. Minimum down payment (3% for 1 unit OO purchases, 5% for all other transactions) must be from the borrower's own funds.

### Acceptable Sources

- Borrower's own funds, including checking, savings, certificate of deposit, or other depository accounts.
- All occupancies: proceeds from loans secured by the borrower's own assets, such as a 401(k) loan, IRA, life insurance cash value and HELOCs.
- Gifts from acceptable sources.
- Joint accounts with non-borrowing spouses are accepted. All other accounts held jointly with another party will be accepted if all the following are met:
  - Account holder address on bank statement is the same as the borrower's
  - Other account holder affirms borrower's rights to full access on the account

Assets brought to closing must be from sources and amounts as have been verified. Transfers between verified assets to consolidate funds into one check must be documented. If the source of funds for down payment or closing

costs is from the sale of stock, or the withdrawal or loan from a retirement account, the file documentation must evidence the receipt of funds and the sale, liquidation or withdrawal of the asset.

**Bank statements**

- All pages of all bank statements must be provided.
- Large Deposits:
  - Large deposits must be adequately explained and documented. This is generally required when non-payroll deposits exceed \$1,500, either individually or in aggregate, over one month’s statement, or reflect an unusual pattern of deposits not consistent with the borrower’s employment, earnings and/or savings patterns. “Generally” is meant to allow more flexible, or - in some situations - tighter enforcement, depending on the borrower profile and transaction risk.

**Business funds**

*Business funds/Corporate accounts are accepted for down payment, closing costs and reserves as allowed below. Any recent transfers from business to personal accounts on any of the bank statements included in the loan file must also meet these requirements.*

<b>Bank Account Holder’s names</b>	<b>Eligibility</b>
<i>Personal</i>	<i>Accepted without restriction</i>
<i>Personal and a business name or business name</i>	<p><i>Allowed, subject to:</i></p> <ul style="list-style-type: none"> <li>• borrower is the sole owner of the business or borrower must provide verification from the other owners of the business that s/he has access to the funds</li> <li>• The accountant must comment on the impact that the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted. The Underwriter must review the document and financials (as per DU requirement) for acceptance.</li> <li>• Verification of funds in the account is required. (<b>Note:</b> Large deposits that are not in line with business revenue/income stream should be explained and verified.)</li> </ul>

**Determining the value of the asset when used for reserves**

- **Stocks, bonds, and mutual funds:** 70% of the value may be used as reserves (reduced from 100%).
- **Retirement accounts:** 60% of the vested value may be used as reserves (reduced from 70%).
- **Stock options and non-vested restricted stock** are not eligible for use as reserves.

**Unacceptable Sources**

- Cash-on-hand
- Sweat Equity
- Cash advance on a revolving charge account, lines of credit on credit cards, overdraft protection on checking accounts, signature loans.
- Community seconds, employer assistance, gifts from churches, public agency, municipality or non-profit
- Unsecured loans from a relative (including a spouse), domestic partner, or fiancée/fiancé are **not** an acceptable source of funds for the borrower’s minimum contribution for any transaction.

**Verification of Deposit (VOD)**

Acceptable if accompanied by one month of current account statements.

**Earnest money deposits**

In addition to the requirements for providing recent bank statements to document available assets needed for closing, the source of any earnest money deposits (EMDs) must be verified using the following documentation:

- For EMD funds that have cleared the bank: A copy of the borrower’s cancelled check and two month’s bank statements (the bank statement prior to the EMD being cleared, and the statement showing the check

being cleared) to evidence a sufficient average balance to support the amount of the earnest money deposit (Note: Any large deposit to the account must be addressed).

- DataTrac entries: Enter the cash deposit into Details of Transaction and labeled as 'cash deposit on sales contract. The EMD must be evidenced as having cleared before closing. Closers: EMD funds have been removed from account balances; the amount needed for closing reflects EMD having been cleared.

As a requirement of ULDD, each Down Payment Source and Amount needs to be clearly and separately identified on the 1003 for all Purchase Transactions

## Gifts

Gift Funds – Purchase or Rate/Term transactions only	
Type	Owner Occupied (not accepted on <i>second home &amp; investment properties</i> )
Source	<ul style="list-style-type: none"> <li>• Relatives</li> <li>• Domestic partner</li> <li>• Fiance'/Fiancee'</li> <li>• Church</li> <li>• Municipality</li> <li>• Non-profit organizations</li> </ul>
Percentage of Borrower's Funds	<p>Minimum 5% down payment (3% on 97% LTV loans) must be from the borrower's own funds.</p> <p><b>Note:</b></p> <ul style="list-style-type: none"> <li>• The entire down payment may be a gift if <math>\leq 80\%</math> LTV/CLTV.</li> <li>• Subject to MI company acceptance: a gift is considered as 'Borrower's own funds' if it comes from a relative, domestic partner or fiancé who has lived with the borrower for the past 12 months (and will continue to do so.). Note: Radian, which accepts credit scores as low as 620, does not accept this.</li> <li>• Documentation that demonstrates a history of borrower and donor shared residency is required. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill or a bank statement.</li> </ul>

DU now requires a gift letter whenever gifts are provided. Follow DU for documentation requirements

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.

### Gift transfer documentation requirements

- Funds received prior to closing:
  - Copy of the donor's check and the borrower's deposit receipt; or
  - Copy of the donor's withdrawal slip and the borrower's deposit receipt
- Funds received at closing: If the donor does not intend to provide gift funds until closing, the following documentation must be obtained at the closing table:
  - Copy of the certified check or cashier's that was given to the closing agent (check must be payable to the title company and show the donor as the remitter); or
  - Copy of the settlement statement showing receipt of the check from donor

### Gift of Equity:

When an applicant is purchasing a primary residence from a relative, the seller/relative may gift equity in the property for the down payment. The LTV/CLTV (and the percentage of equity gifted) is based on the lesser of the sales price or appraised value. The seller must complete a gift letter, borrower's minimum own funds are required if the LTV/CLTV is greater than 80% and no secondary financing may exist. The equity gift must show on the HUD-1.

**Gift funds for reserves, or to pay off of other obligations.**

Not allowed for SH and NOO. For primary residence transactions, gifts are allowed; however the use of gifts for reserves or to pay off borrower obligations must be considered as a negative factor when determining the overall risk in the transaction.

**Reserves**

Reserves required are based on the occupancy of the subject property, and are calculated using the full PITI for each property - P&I, taxes, insurance, HOA dues (excluding any utility charges), mortgage insurance, ground rents, special assessments, subordinate financing, etc.

**Reserves on DU transactions**

Follow DU requirements for the reserves required. DU will calculate the dollar amount of required reserves for the subject property, except

- O/O 2-4 unit properties requires 6 months\*
- on subject property SH or NOO transactions, the number of months reserves required for all other financed residential properties.
- However, DU cannot calculate the number of other financed properties owned. Therefore, underwriters must manually apply DU's reserve requirements to second home or investment property transactions.

While DU calculates the required amounts based on the transaction risk, for a general expectation refer to the reserves required for a manual underwriting transaction.

**Reserves on Manually Underwritten Loans**

# financed properties owned	Owner Occupied	Second Home	Investment	Primary with a conversion of primary residence
1-4	1 unit properties: 2 months  2-4 unit properties: 6 months	2 months reserves for each residential property owned, excluding the primary residence or those owned free and clear.	6 months reserves on subject property investment property, plus 2 months reserves for each other residential property owned, excluding the primary residence or those owned free and clear	If >=30% in property being vacated, 2 months on primary and property being vacated  If <30% in property being vacated, 6 months on primary and property being vacated
5-10		2 months for subject property, plus 6 months for each other SH or Investment property owned	6 months for subject property, plus 6 months for each other SH or Investment property owned	

**6. Ratios**

**Qualifying Ratios**

For DU transactions, maximum qualifying ratios are determined by DU, unless otherwise limited within this document or by the MI companies on loans >80% LTV. Current DTI limitation by MI companies is 41-45%, depending on LTV, credit score, property location, and transaction. For loans manually underwritten, see the Manual Underwriting section.

The qualifying rate for the 5/1 Hybrid ARM is the greater of the fully indexed rate or the note rate plus 2%.

See Non-Occupying Co-Borrowers (section 1) for ratio requirements on affected loans

## Liabilities

- Deferred student loans with payments not listed on the credit report: use 2% of the balance of the student loan in lieu of obtaining documentation of the monthly payment when the credit report does not contain one. However, if any documentation is provided that indicates the actual monthly payment, that figure must be used in qualifying the borrower.
- Revolving accounts where the credit report does not include a payment, or the payment is less than 1% of the balance, use the greater of \$10 or 5% of the balance unless a monthly billing statement is provided.
- *Co-signed obligations are to be included in the DTI calculation unless the most recent 12 months of cancelled checks from the primary obligor are provided showing prompt payment.*
- “Authorized User” account (AUA)
  - If the DU approval is based on authorized user account trade lines, underwriter must confirm these accounts accurately reflect the borrower's credit history. Multiple AUAs (especially relative to the overall number of trade lines) may skew the credit score and risk analysis, thereby making the DU findings inaccurate unless the borrower provides cancelled checks as evidence of paying the most recent 12 months payments on the AUAs.
  - In all other cases, payments on AUAs may be omitted from the borrower's ratios if the credit reporting agency confirms the borrower is not obligated to make the payments
- Deferred Community seconds: If payments deferred for less than 5 years after closing, use the payment required at the end of the deferral period; if deferred for at least 5 years, do not include a payment
- Other non-HELOC subordinate liens: if interest-only or deferred payments, calculate an amortizing payment using a 15 year term and current interest rates.
- HELOC payment amounts are to be calculated according to the matrix below:

Data input	Entry Requirements
<b>Subject and non-subject property HELOC when payment and balance on the credit report are reported correctly</b>	
payment	Payment per credit report
Details of Transaction entries in DU	Subject Property: Difference between maximum line amount and credit report balance  Non-Subject Property: N/A
Balance	Per credit report
Amount of lien	Maximum line amount
<b>Subject and non-subject property HELOC when payment or balance on the credit report are not correct, or the balance will change upon closing (HELOC being used for closing funds or will be reduced by closing proceeds)</b>	
payment	Per documented changed amount
Details of Transaction entries in DU	Subject Property: Difference between maximum line amount and credit report balance  Non-Subject Property: N/A
Balance	Per proposed amount
Amount of lien	Maximum line amount

## Qualifying Amount for Property Taxes

For qualifying purposes for the property tax payment, for California purchase transactions use 1.25% of the sales price. In all other cases, compare the following sources and use the highest of: appraisal; title commitment binder/prelim; tax bill, if provided; or for new construction properties, 1.25% of the sale price unless a higher percentage is typical and customary.

## Paying off or paying down debt to qualify

Action	Revolving Debt	Installment Debt
<p><b>Paying off debt</b></p>	<p>If the account will be paid off <u>but not closed</u>, the payments as reflected on the credit report must be included in the DTI calculation (for tradelines not reporting a payment or a payment less than 1% of the balance, use the greater of \$10 or 5% of the outstanding balance). For loans with LTVs &gt;80%, payments must always be included in the DTI.</p> <p><u>For loans &lt;=80% LTV:</u> If paid off and closed, allowed subject to the following requirements</p> <p>To exclude a revolving account from the DTI calculation, it must be:</p> <ul style="list-style-type: none"> <li>• coded as 'Paid by Close' in DU</li> <li>• paid off and closed before or at closing</li> </ul> <p><u>If source for payoff will not be loan proceeds, the account must be paid and closed before closing:</u></p> <ul style="list-style-type: none"> <li>• borrower document proof of available funds and a copy of the bank statement or cancelled check showing payment (and the liquid assets in DU are reduced by the revolving payoff amounts), and either:</li> <li>• updated credit report or tradeline supplement showing tradeline having a zero balance and remarks saying 'closed' or 'closed by consumer' (caution – a new credit report will require a new DU submission), or</li> <li>• creditor letter acknowledging payment in full and confirming the account is closed and has a zero balance.</li> </ul> <p><u>If paid with closing proceeds,</u></p> <ul style="list-style-type: none"> <li>• Obtain letter(s) from creditor(s) verifying the account is closed (prior-to-docs condition; ROC manager may authorize exceptions prior-to-funding)</li> <li>• Credit Report balance can be used as payoff amount.</li> <li>• Closing agent to individually list the creditors(s) that are being paid off on the HUD, using the credit report balance.</li> </ul>	<p>Allowed, no further consideration required</p>
<p><b>Paying down debt or amortizing payments have reduced number of payments to less than 10</b></p>	<p>Paying down debt to qualify is not allowed on revolving or installment accounts.</p> <p>For installment accounts that have amortized to less than 10 payments remaining, generally not allowed when large payments are involved. Underwriter must consider effect of remaining payments on borrower's ability to make payments, including amount of excess reserves available that could be used to make the remaining payments</p>	

## 7. Appraisers and Appraisals

### Appraisers

Must be state licensed with no prior disciplinary action. Must not be on any Exclusionary list.

### Appraisal Forms

Follow DU for appraisal requirements except in the scenarios below:

Scenario	Appraisal requirements
LTV exceeding 80% (restriction not applicable for DU Refi Plus)	Reduced appraisals allowed if allowed by DU and the MI company.
<p>If any of the following are present</p> <ul style="list-style-type: none"> <li>• Short sale (purchase transaction)</li> <li>• Loans that are REO sales by the foreclosing lender, or the last transaction was the purchase of a foreclosed property</li> <li>• Mixed use property</li> <li>• Appraiser is unable to view the property improvements from the street</li> <li>• Property is new construction and has not yet been occupied</li> <li>• Property is undergoing renovation</li> <li>• Property does not conform to the neighborhood</li> <li>• Adverse physical deficiencies or environmental conditions are observed</li> <li>• Data sources do not provide sufficient information about the interior or exterior of the property the appraisal, or the appraiser cannot reconcile all significant discrepancies (e.g. size, condition, etc) among available sources</li> </ul>	Obtain 1004/1073/1025 as applicable for the property type
<i>Current value stated in DU reflects a significant increase since a recent purchase (generally within 6 months prior to application date)</i>	Obtain 1004/1073/1025 as applicable for the property type
<i>Loans with a disaster declared – applies to all loans not yet funded by HSOA <u>and</u> any applications dated less than 120 days after the disaster incident end date.</i>	<p>A full appraisal (1004/1073/1025) with interior and exterior photos must be obtained after the disaster occurred, regardless of automated underwriting decision if.</p> <ul style="list-style-type: none"> <li>• The appraisal was not yet completed, or</li> <li>• DU allowed a property inspection waiver (PIW) or Exterior Only inspection.</li> </ul> <p>If a full appraisal was completed prior to the disaster occurring, the property must be re-inspected (exterior and interior) prior to the loan closing. Refer to the Underwriting guidelines or Closing Manual for details</p> <p>After 60 days, follow DU.</p>

**Reminder:** Loans with a PIW acceptance by DU must have PIW fee charged at closing and borrower sign the PIW waiver form.

## General Appraisal requirements

- The most recent and similar comparable sales available as part of the sales comparison approach must be used. Any change in market conditions from the date the contract of sale was signed and date of the appraisal must be considered.
- Verification of comparable sales with a reliable party that is not associated with the subject property or the subject property's development, and at least two comparables, must be verifiable through the Multiple Listing Service (MLS) as arms length transactions.
- Two of the comparable sales must have closed **within 90 days of the appraisal effective date.**
- Two additional comps of current listings or pending sales must be provided.
- Comparable sales must be mapped in the appraisal.
- Days-on-market (DOM) for subject and comparable sales must be provided, if applicable. The average days-on-market for the comparable sales must not exceed the "Marketing Time" box marked by the appraiser.
- If the appraiser is unable to meet any of the above requirements, the appraiser must provide a detailed explanation as to why the requirements were not met, and if it resulted in making an adjustment to the property value.
- The Home Ownership and Equity Protection Act (HOEPA) directs that anyone involved in originating a loan must not directly or indirectly coerce, influence, or otherwise encourage an appraiser to misstate or misrepresent the value of the subject property.
- The appraiser must be provided with a copy of both the purchase contract and **all addenda** to ensure any financing and/or sales concessions are considered when determining impact on the value of the property. Amendments or adjustments received after the appraisal must be complete and supplied to the appraiser for review.
- If a supervisory appraiser signs the appraisal, the Supervisory appraiser must perform the property inspection.
- If an appraiser uses comparable sales outside the subject neighborhood when comparable sales are available, an explanation must be provided.
- Appraisers must provide a 12-month listing history for the property. Frequent listings and/or sales require explanation on each occurrence or listing and should include the data source(s), offering prices, and date(s), and any further evaluation as they may indicate "flipping."
- In the analysis and completion of the sales comparison approach, the appraiser may determine that time adjustments are required. These adjustments may be either positive or negative. The adjustments must reflect the difference in market conditions between the date of sale of the comparable and the effective date of appraisal for the subject property.
- Interior photos of the kitchen, all bathrooms, main living area and, if present, evidence of physical deterioration or recent updates, remodeling or renovation.
- Appraisal must include a complete and accurate legal description for the property..

## Appraisal Review Requirements

All appraisals must have a Corelogic review. If the AVM models fail (Step 1 and 2), then a **Corelogic with value** is required.

### Utilities

Unless the appraiser, purchase contract or a transaction-contingent property inspection report requires the utilities to be on or tested, HSOA does not require the utilities to be on and functioning at the time of the appraisal inspection.

## New construction Projects and Developments - Additional Requirements

- The appraiser must use at least one current sale from the subject builder/developer in the project, and either:
  - One current sale from a competing builder/developer, or
  - A resale from within the subject property's development that has closed within the last 30 days.
- If the appraiser is unable to meet any of the above requirements, the appraiser must provide a detailed explanation as to why the requirements were not met, and if it resulted in making an adjustment to the property value.
- When appraising new construction, both the contract/sales date (when the buyer entered into the contract with the builder), and the closing date must be reported and analyzed. Differences in market conditions between the contract/sales date and the effective date must be analyzed.
- The appraiser must provide the builder names of the subject property, and the comparables (if new construction also).

### Market Conditions Addendum to the Appraisal Report

The Market Conditions Addendum to the Appraisal Report (Form 1004MC) is required for all conventional loans. Form 1004MC will:

- provide the appraiser with a structured format to report market data,
- help further clarify conclusions made by the appraiser, and
- supply the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

### Appraisal Independence Requirements

All appraisals must be AIR compliant (formerly known as HVCC). Transferred-in appraisals are not accepted on loans submitted on and after December 1, 2011.

### Uniform Appraisal Dataset (UAD)

Appraisals completed on and after September 1 must comply with Uniform appraisal Dataset (UAD) requirements. This applies to appraisal forms 1004, 2055, 1073 and 1075.

### Operating Income Statement (216) and Comparable Rent Schedule (1007)

(Requirements apply to the subject property, not any other properties the borrower may own)

#### Rental income is used in qualifying

The operating income statement is required on all 2-4 unit properties, and all one-unit rental properties. The comparable rent schedule is required on all one-unit rental properties.

#### Rental income is NOT used in qualifying

- One unit properties: A current lease **or** 216 **or** 1007 is required to document current/market rent.
- 2-4 unit properties: FNMA form 1025, which includes a comparable rent schedule.

### Permitted and un-permitted Space

The appraiser or client must confirm that the permit or other acceptable document was issued. Building permits are required\* under the following conditions:

- Whenever the Purchase Agreement or Sales Contract requires it.
- If indicated in the appraisal report that there is an addition to the original structure, extensive remodeling, or conversions of an existing structure.
- Whenever a second story, kitchen, bath, multiple rooms, or detached unit has been added to the original structure.

\*See scenarios below where properties without permits are accepted.

If the appraiser comments that the addition, remodeling, or conversion was permitted, a copy of the permit is not required

<b>Investor requirements</b>	
<b><u>Added</u> space: room additions or room expansions, finished basements</b>	
<b>With permits</b>	Property to be valued in its current use and condition
<b>Without permits</b>	No value given to the un-permitted space, square footage cannot be included in the in the GLA. Appraisal to confirm improvements completed in a workmanlike manner.
<b><u>Converted</u> space: garages, patio enclosures, family rooms, etc</b>	
<b>With permits</b>	Property to be valued in its current use and condition
<b>Without permits</b>	No value given to the un-permitted space, square footage cannot be included in the in the GLA. Appraisal to confirm improvements completed in a workmanlike manner.

<b>Accessory unit/Guest House AKA caretaker/maid's quarters, ohana unit</b>	
<b>With permits</b>	Municipal records, appraisal, and – if provided - title information must be consistent as to the number of units.  Rental income from accessory unit allowed.
<b>Without permits</b>	A mortgage secured by a 1-2 unit property that includes an illegal additional unit or accessory apartment (also referred to as a mother-in-law, mother-daughter, or granny unit) is acceptable as long as the illegal use: 1) conforms to the subject neighborhood; 2) is residential in nature; and 3) meets the test of "common and customary for the market". The property must be appraised in conformity with its legal use (as a 1-unit property) and the borrower must qualify for the mortgage without considering any rental income from the illegal unit. The local government must allow the property to be rebuilt if damaged or destroyed. The governing agency's (or official's) name should be identified in the report.  Corelogic pass is required  The Sales Comparison Analysis section of the appraisal must support the use of similar property. As an alternative to providing at least 2 similarly affected comparable sales, the following are acceptable: <ul style="list-style-type: none"> <li>• The appraiser may include only one comparable sale similarly affected as long as a similarly affected current listing or pending sale is also included.</li> <li>• If no comparable data is available, the report should include an Addendum listing other similarly affected sales (even if not comparable in size, style, or price), along with a list similarly affected comparable property from the immediate area in which the appraiser has personal/professional knowledge.</li> <li>• A mortgage secured by a 3-4 unit property that includes an illegal accessory apartment is not permitted. In addition, a mortgage secured by a property that is subject to certain land-use regulations (such as coastal tideland or wetland laws) that create setback lines or other provisions that prevent the reconstruction (or maintenance) of the property improvements if they are damaged or destroyed are not permitted. (The intent of these types of land-use regulations is to remove existing land uses and to stop land development—including the maintenance or construction of seawalls—within specific setback lines.)</li> </ul>
<b>Detached non-residential structures</b>	
<b>With permits</b>	Contributory value accepted
<b>Without permits</b>	No value given to the un-permitted space, Appraisal to confirm improvements completed in a workmanlike manner.

### Work Completion Escrows

Escrow Holdbacks for the completion of minor repairs will be permitted as long as they adhere to all of the following:

- The Holdback amount must be at least 1.5 times the amount needed for repairs and will be held by the Closing Agent
- Holdback amount not to exceed \$5,000, which means the cost of repairs cannot exceed \$3,333.00
- Holdbacks will be permitted up to 10 Business Days MAXIMUM.
- The lock period must be valid through the 10 business day escrow time frame.
- A copy of the invoice/contractor's bids reflecting an estimate of repairs to be completed and must be sent to the ROC Manager or UW Manager for approval.
- All Escrow Holdbacks will require the approval of the UW or ROC Manager.

- Closing Agent to hold any and all broker/originator funds including lender-paid or borrower-paid compensation until all repairs have been completed.
- Other than incidental painting, all work must be performed by licensed contractors (no do-it-yourself projects).

## Construction-to-Perm

### All construction-to-permanent loans must adhere to these requirements:

- The property must be complete at the time of the permanent financing funding.
- A final Certificate of Completion must be obtained.
- Photographs of the completed property are required.
- **All construction-to-permanent loans must be secured by owner-occupied primary residences.**
- The borrower must be the primary obligor on the construction financing which is obtained through a legitimate financial institution **AND** the borrower is the owner of the lot on which the residence is constructed.
- Detached single family residences only.
- HSOA transaction will be as a Refinance. The borrower may or may not receive cash out.

### These properties are not eligible for construction-to-permanent financing:

- Second home or Investment properties.
- Properties in which the borrower has a development interest (for example, if the borrower is also the builder).

The LTV depends on how long the borrower has owned the land.

Ownership of Land	Determination of LTV
Borrower owned the land for less than 12 months	LTV is based on the lesser of the: <ul style="list-style-type: none"> <li>• Current appraised value</li> </ul> <p style="text-align: center;"><b>Or</b></p> Sales price of the land* plus any documented improvement costs.
Borrower owned the land for at least 12 months	LTV is based on the current appraised value

\*The cost of the land acquisition is determined by a certified copy of the closing statement (HUD-1) from the purchase of the land. If the land was a gift use the current appraised value of the land.

Labor performed by the buyer, also referred to as sweat equity, or the trade of any labor or goods from the buyer to the builder is not an eligible source of funds.

If the borrowers employ a general contractor, the following documentation is required to verify the cost of construction:

- Signed construction contract
- Copy of the improvement plans and complete breakdown of construction costs and specifications.
- Copies of canceled checks and receipts of bills for payment of any supplied, materials, labor, or funds paid directly to subcontractors by the borrower.

If a general contractor is not used to construct the building, the construction costs must be documented with copies of receipts or invoices and cancelled checks for materials, supplies and/or labor.

## 8. Compliance/Special Considerations

HSOA does not make any loans, which are defined, as “high-cost” under Section 32 or any State or locally governed legislation.

HSOA reserves the right to amend the requirements set out in this document without providing prior notice.

All loans must meet Program Guidelines and HSOA Conventional Underwriting guidelines.

- All Refinances must provide a tangible benefit to the borrower.
- Maximum allowable fees charged to borrower is the greater of 5% or \$1,000 (excludes prepaids and charges from un-affiliated vendors (title co, appraiser, etc).
- Maximum Realtor fees allowed on any purchase transaction, including auction charges is 8%.

Cook County, Illinois

A copy of the Predatory Lending Database counseling determination and proof of counseling (if required) must be included in the loan file. If the loan is exempt from the requirements, a certificate of exemption must be included in the loan file.