

Avoid Common Underwriting Errors: Suggested Best Practices

September 2019



YOU-CENTRIC SOLUTIONS THAT MATTER

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Genworth 
Mortgage Insurance

Agenda

Introduction

General Underwriting Tips

- Resources
- Examining and Documenting Files

Specific Errors and Recommendations

- Capacity, Credit History, Capital, Compliance

Questions and Answers

Resources

Job Aides, Tools, Websites



For Information:

<https://www.fanniemae.com/singlefamily>

Sentiment Survey

Learn more ➤



Fannie Mae Job Aids/FAQs

Originating & Underwriting Training

The Originating & Underwriting Training page provides Fannie Mae training on originating & underwriting loans, our underwriting applications, and best practices. Training solutions include live webinars, virtual classrooms, on-demand eLearning courses, job aids, and FAQs

Find the Training Resources You Need



Originating & Underwriting

Pricing & Execution

Delivering

Servicing

HFI Virtual Classroom

Live Web Seminars

Related Training

General Underwriting

Mortgage Products

Loan Quality

Technology Solutions

Training focusing on underwriting the borrower and the property.

Job Aids / FAQs

FAQs | Property Inspection Waiver (General Questions)

FAQs | Special Approval Designation for Established Florida Condominium Projects

FAQs | Uniform Appraisal Dataset (UAD)

FAQs | Borrower Income Verification Policies

FAQs | Top Trending Questions for Lenders

FAQs | Top Underwriting Questions

Online Courses / Microlearning

Appraising Rural Properties

Assessing Income from Self-Employment

How to Underwrite Loans to Non-U.S. Citizen Borrowers

Market Conditions Addendum Form

Qualifying the Borrower Video Series

UAD Interactive Reference Manual

<https://www.fanniemae.com/singlefamily/originating-underwriting-training>

Fannie Mae Borrower Income Verification FAQs

Answers Common Lender Income Questions

- <https://www.fanniemae.com/content/faq/borrower-income-verification-faqs.pdf>



Fannie Mae®

Borrower Income Verification Policies Frequently Asked Questions

This document addresses frequently asked questions about Fannie Mae's policies regarding verification of borrower income (*Selling Guide* B3-3), including updates in *Selling Guide Announcement SEL-2014-16* and *Announcement SEL-2015-07*. For related information, refer to the *IRS Form 4506-T Tips for Underwriting and Quality Control*. For details on income verification for loans with income validated through the DU Validation Service, refer to the *DU Validation Service FAQs*.

Q1. When does Fannie Mae require that borrowers complete and sign IRS Form 4506-T, and when is the lender required to obtain tax transcripts from the IRS?

The *IRS Request for Transcript of Tax Return* (IRS Form 4506-T) gives the lender permission from the borrower to obtain tax transcripts from the IRS.

Fannie Mae requires that lenders obtain a completed and signed IRS Form 4506-T from all borrowers during the underwriting process, EXCEPT that this requirement does not apply if all of the borrower's income has been validated by the DU® validation service. This aligns with the *Selling Guide* policy that does not require lenders to obtain tax transcripts as part of the quality control process in these cases. If all borrower income is not validated through the DU validation service, the lender must obtain the completed and signed IRS Form 4506-T. The lender has the discretion to determine at what point in the process it is obtained, understanding that the form is only valid for 120 days from the date of the borrower's completion/signature.

Some lenders may submit the Form 4506-T to the IRS to document borrower income, but the intent of this policy is to validate the income documentation provided by the borrower and used in the underwriting process.

Fannie Mae does not require lenders to obtain tax transcripts from the IRS prior to closing, but does require that it be included as part of the lender's post-closing quality control processes, unless all borrower income has been validated through the DU validation service.

If the lender chooses to obtain tax transcripts from the IRS prior to closing, the transcripts received must be used to validate the income documentation used in the underwriting process.

Q2. Why does Fannie Mae permit lenders to request specific or limited documentation from the IRS when submitting a request with the borrower's consent on IRS Form 4506-T (such as requesting only the transcript for forms W2 or 1099), rather than always requiring the full transcript of the borrower's personal income tax return (aka Form 1040)?

Fannie Mae's requirements for documentation to be requested from the IRS align with the income documentation required at origination. Only when the borrower's federal income tax returns are required in the underwriting process, per the *Selling Guide*, does Fannie Mae require the lender to request federal income tax return transcripts.

Federal tax returns are not required to verify income for a significant number of income types including salary/base pay, bonus and overtime, or commission earnings that amount to less than 25% of total qualifying income. Tax returns are also not required for military income, Social Security disability, or

Fannie Mae Top Trending Questions

Trending Questions

Question	Answer
If a home is purchased at an auction and the purchase price includes the buyer's premium and/or technology fee, will that be acceptable?	Yes. We will permit the combining of the buyer's premium and the winning bid to calculate the final sales price. However, the amount of the buyer's premium should be common and customary (that is, an amount that is consistent with a typical auction and tech fee transaction). As with all purchase transactions, the lesser of the sales price or appraised value must be used when establishing the LTV, CLTV, and HCLTV ratios. (Ref: Selling Guide B2-1.2-01, Purchase Transactions)
For employment offers and contracts, if the lender is unable to obtain a paystub to meet the Selling Guide requirements, do we have options?	In lieu of a paystub, the lender can obtain a fully completed Verification of Employment (VOE) with year-to-date earnings to verify the income used to qualify. (Ref: Selling Guide B3-3.1-09, Other Sources of Income)
Can the borrower's parent, who is also the selling realtor, give a gift of cash or commission to the borrower for down payment?	No, 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. (Ref: Selling Guide B3-4.3-04, Personal Gifts)
Can we use the credit report to support a mortgage that was included in a bankruptcy if the credit report states "included in a BK?"	"Included in a BK" does not necessarily mean the debt was discharged in the bankruptcy. In order to disregard a mortgage debt that was included in a BK, the lender must obtain documentation that the debt was discharged. (Ref: Selling Guide B3-5.3-07, Significant Derogatory Credit Events - Waiting Periods and Re-establishing Credit)
When a borrower converts their primary into an investment, do we still have to follow the old guidelines, in reference to 30% equity and 6 months reserves?	The equity and reserve requirements that applied specifically when a borrower converted their current principal residence into an investment property have been eliminated. The lender should follow standard reserve requirements and rental income policy. (Ref: Selling Guide B3-6-06, Qualifying Impact of Other Real Estate Owned)

<https://www.fanniemae.com/singlefamily/trending-questions?taskId=task-47>

Fannie Mae Underwriting FAQs

Answers Common Lender Income Questions

- <https://www.fanniemae.com/content/faq/underwriting-faqs.pdf>

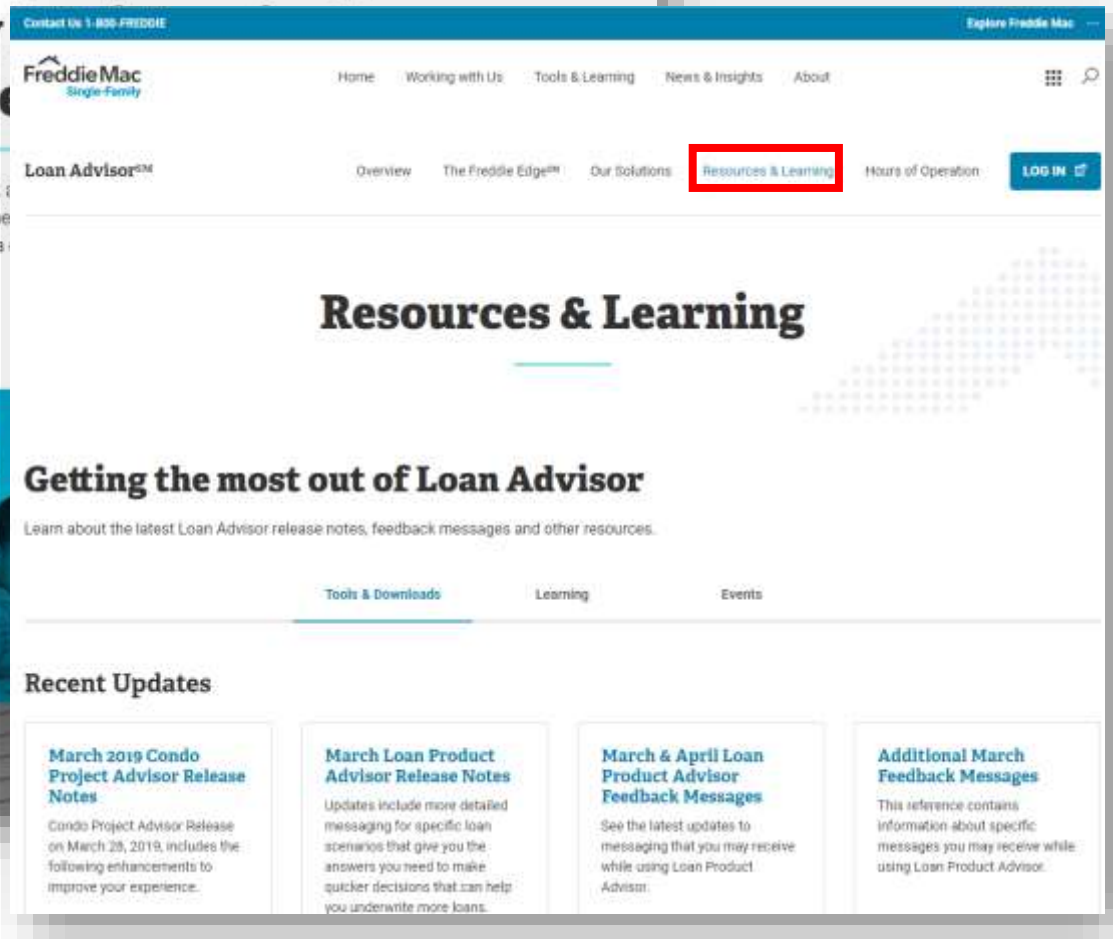


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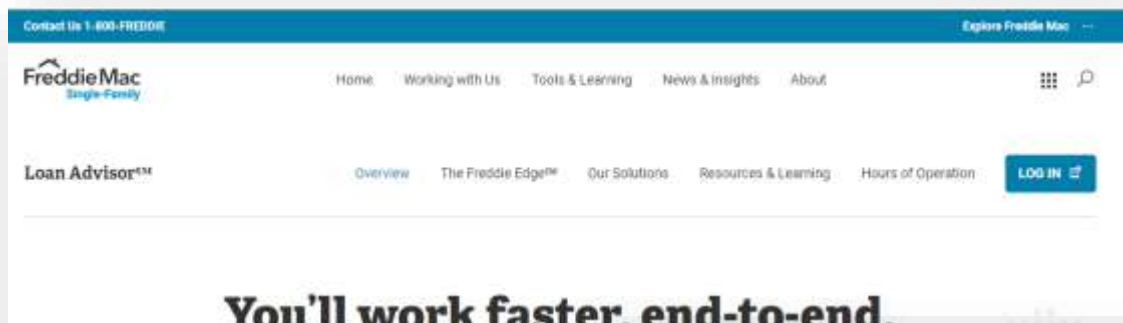
Underwriting FAQs

This document highlights frequently asked questions about policies that are covered in the *Selling Guide*, and provides direct links to the relevant *Selling Guide* topic and other resources. The document is updated periodically to align with policy changes.

#	Question	Answer
1	Can the amount of distributions reported on IRS Schedule K-1 be used as income to qualify the borrower?	No, distributions are not an additional or secondary source of income for qualifying purposes and cannot be used in the absence of business earnings for qualifying purposes. A documented history of distributions demonstrates that business income has been received by the borrower. When the borrower cannot document a history of distributions consistent with the amount of business income used to qualify, the lender can alternatively confirm the business has adequate liquidity to support the withdrawal of earnings.
2	How is the minimum replacement reserve allocation for HOA budgets calculated?	To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, divide the annual budgeted replacement reserve allocation by the association's annual budgeted assessment income. Certain types of income may be excluded from the reserve calculation. Additional information can be found in B4-2.2-02: Full Review Process .
3	Are lenders permitted to use a reserve study in lieu of calculating the replacement reserve?	Yes. The lender may use a reserve study in lieu of calculating a replacement reserve of 10% provided the following conditions are met: <ul style="list-style-type: none">• The lender obtains a copy of an acceptable reserve study and retains the study and the lender's analysis of the study in the project approval file;• The study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae's standard reserve requirements; and• The study demonstrates that the project's funded reserves meet or exceed the recommendation made in the study. Additional requirements for reserve studies can be found in B4-2.2-02: Full Review Process .
4	Do employee business expenses reported on IRS Form 2106 always need to be deducted from the borrower's income?	No. If the borrower is qualified using base, bonus, and overtime pay, and commission income is less than 25% of the borrower's annual employment income, unreimbursed employee business expenses are not required to be analyzed or deducted from qualifying income or added to the monthly liabilities. See B3-3.1-04: Commission Income and B3-3.2.1-03: Deductions Reported on IRS Form 2106 .
5	When a borrower has a bankruptcy and a foreclosure, what event is used to determine the waiting period?	If a mortgage was discharged through a bankruptcy (and documented by the lender), the bankruptcy waiting periods may be applied. Otherwise, the greater of the bankruptcy or foreclosure waiting periods must be applied. See B3-5.3-07: Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit .
6	Can gift funds come from trust or estate accounts?	No. Gifts must come from individuals related to the borrower. Trusts and estates do not meet the gift donor requirements. See B3-4.3-04: Personal Gifts .
7	Does Fannie Mae require borrower signatures in conjunction with the Closing Disclosure?	No. As stated in the <i>Selling Guide</i> A2-5.1-02: Individual Mortgage Loan Files , Fannie Mae is not currently requiring that the borrower and seller (if applicable) sign the Closing Disclosure. Although these signatures are not



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Set Your Target on AIM for Self-Employed Income with Loan Product Advisor

Learn more about how the Loan Product Advisor asset and income modeler (AIM) for self-employed income works and what you need to know to assess operational and system impacts and readiness to take advantage of this new capability.

SET YOUR TARGET ON AIM FOR SELF-EMPLOYED INCOME WITH LOAN PRODUCT ADVISOR

Loan Product Advisor® Training Resources

This document lists various resources available in Freddie Mac Learning to assist you with using Loan Product Advisor®.

Loan Product Advisor Feedback Certificate video

Learn more about some of the new features in the redesigned feedback certificate.

AIM for Self-Employed

AIM for self-employed borrowers makes it easier to evaluate assets and income even when there is no W2 from which to work.

Automated Collateral Evaluation Training

This learning clip provides an overview of Loan Product Advisor's automated collateral evaluation.

Collateral Representation and Warranty Relief Overview

This learning clip provides an overview on collateral representation and warranty relief.

What is Condo Project Advisor tutorial

Watch this video to learn more about the features of Condo Project Advisor.

Loan Product Advisor Documentation Matrix

Use the following information as a reference for documenting your Loan Product Advisor loans.

Loan Product Advisor® Feedback Message Cause and Resolution

This reference contains information about specific messages you may receive while using Loan Product Advisor.

Selling Mortgages for Cash Using Loan Selling Advisor User Guide

Get helpful tips on how to use Loan Selling Advisor to help you sell mortgages for cash.

Selling Mortgages for Securities Using Loan Selling Advisor User Guide

Get helpful tips on how to use Loan Selling Advisor to help you sell mortgages for securities.

Loan Product Advisor® Functionality Guide

The information provided in the document applies generally to all Loan Product Advisor® users.

<https://sf.freddiemac.com/tools-learning/loan-advisor/resources-learning#learning>

Documentation and Rental Income Matrix

- Documentation Matrix Updated July 2019
- Rental Income Matrix Updated March 2019
- Assists with processing and documenting loan files
- Be mindful of Product Overlays

Loan Product Advisor® Documentation Matrix

Use the following information as a reference for doc documentation information and specific program elig [Seller/Service Guide \(Guide\)](#). We recommend book access.*

What Has Changed in this Reference?

This reference is updated to coincide with new and a Guide Bulletin. Recent changes include:

Topic	Change
IRS Form 4508-T	Revised requirements for signatures on IRS Form
Age of Documentation	Simplification of our age requirements for disaster
Single-Family Seller/Service Guide	As special note, we've in Seller/Service Guide to easier to find, understand information. We've even links to relevant articles
Link to the Guide	To support the new get applicable guide written throughout the Docu
Documentation Matrix	Web address has change saved or favorite bookmarks address: https://af.freddie.mac.com/sources/pdf/update/docu

Note: Vertical revision bars * (*) are also used in the significant changes.

* [The Guide on ARRego](#) is the official electronic version

July 2019

Freddie Mac Rental Income Matrix

Effective for Mortgages with Freddie Mac Settlement Dates on and after March 6, 2019.

Rental income may be used in qualifying the borrower(s) provided the requirements of Guide Section 5305.1 and the documentation requirements contained in Guide Sections 5102.3 and 5102.4 and Chapter 5302 are met. Use the following chart as a tool to help summarize these rental income requirements.

Topic	Rental Income is from...		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- to 4-unit Investment Property	Non-subject Investment Property Owned by the Borrower
Documentation, history and analysis-	<p>If the Borrower's monthly debt payment-to-income ratio (as described in Section 5401.2) includes the full monthly payment amount for the subject investment property and/or non-subject investment property, no further evaluation is required.</p> <p>If rental income from the subject investment property and/or non-subject investment property is to be considered in qualifying the borrower, the following requirements apply:</p> <ul style="list-style-type: none"> The Seller must obtain the borrower's federal income tax returns (Internal Revenue Service (IRS) Form 1040) including the Schedule E for the most recent year. Except as set forth below when use of a signed lease may be permitted, if the subject property has been owned for at least one year and income from the subject property is reported on the borrower's federal income tax returns, the Seller must use the Schedule E to determine the net rental income or loss. If the subject property has been owned for at least one year and is reported on the Schedule E of the borrower's prior year federal income tax return, use the income or loss as reported. A signed lease may be used: <ul style="list-style-type: none"> If the property was out of service for any time period in the prior year and the Mortgage file contains a documented event such as a renovation or evidence the property was purchased later in the calendar year Schedule E supports this by a reduced number of days in use and reflects repair costs and Forms 72 or 1000 support the income reflected on the lease. <p>Unless the above requirements are met, a signed lease may not be used and the rental income or loss from the Schedule E must be used and annualized for qualifying purposes.</p>		
Streamlined and Standard Documentation levels	<ul style="list-style-type: none"> Subject property purchase transaction: <ul style="list-style-type: none"> Lease, if available, must be used to determine the net rental income or Forms 72 or 1000, as applicable, may be used to determine net rental income when a lease is not available Subject property refinance transaction or non-subject investment property <ul style="list-style-type: none"> Lease must be used to determine the net rental income Purchase date or conversion date, as applicable, must be documented 		

March 2019

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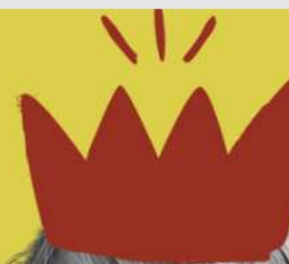
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Underwriting Guidelines

Genworth Mortgage Insurance underwritten by:
Genworth Mortgage Insurance Corporation

July 1, 2019



12659881.0619

Genworth Mortgage Insurance Corporation and Genworth Mortgage Insurance Corporation of North Carolina

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Simply Underwrite® Eligibility Recap

Simply Underwrite applies to eligible loans with a Desktop Underwriter® recommendation or Loan Product Advisor® risk classification. Contact your sales representative or the ActionCenter® at 800.444.5664 with any questions.

Effective July 1, 2019

Primary Residence – Purchase, Rate/Term Refinance and Construction-to-Permanent ¹				
Property Type	Max LTV	Max Loan Amount	Min Credit Score	Max DTI ²
Single family (detached & attached), Condominiums, Cooperatives, Manufactured Housing ³	97%	Agency Base Conforming	620	Per DU & Loan Product Advisor
	95%	FHFA High Cost		
2 units	95%	FHFA High Cost	700	
3 units	95%	FHFA High Cost up to \$1,000,000		
4 units	95%	FHFA High Cost up to \$1,000,000		
Second Home – Purchase, Rate/Term Refinance and Construction-to-Permanent				
Single family (detached & attached), Condominiums, Cooperatives, Manufactured Housing	90%	FHFA High Cost	620	Per DU & Loan Product Advisor
Investment Property – Purchase and Rate/Term Refinance				
Single family (detached & attached), Condominiums	85%	FHFA High Cost	700	Per DU & Loan Product Advisor

¹ Construction-to-Permanent is ineligible with property types other than single family (detached) or Manufactured Housing.

² Genworth utilizes the DTI excluding the mortgage insurance for pricing purposes, the total DTI including mortgage insurance is used for guideline eligibility.

³ Manufactured Housing is eligible to a maximum LTV of 97% for MH Advantage loans.

Eligibility	In addition to Approve/Eligible and Accept/Eligible loans, the following GSE AUS recommendations or risk classifications may be eligible for Simply Underwrite: • Approve/Ineligible for HomePath® Property • See Simply Underwrite sections 4.1 and 6.1 in the <i>Underwriting Guidelines</i> for complete details • HomeReady® and Home Possible® are eligible for Simply Underwrite. For more information, see section 4.2 in our <i>Underwriting Guidelines</i> .
Exclusions from Simply Underwrite	• Fannie Mae High LTV Refinance Option and Freddie Mac Enhanced Relief Refinance Mortgage SM • Lender-negotiated guideline variances, waivers or programs unless approved by Genworth. However, GSE published Renovation Mortgage Programs and cooperative share mortgages are eligible for Simply Underwrite.
Other Underwriting Requirements	• Genworth does not insure the following: Properties located in Guam, Puerto Rico and Virgin Islands • Follow Sections 4.1 and 6.1 Simply Underwrite requirements in our <i>Underwriting Guidelines</i> • Appraisal waivers are eligible when offered by DU for rate/term refinance transactions receiving a DU Approve/Eligible recommendation
Note	References to FHFA (Federal Housing Finance Agency) pertain to HERA High-Cost Areas Loan Limits which can be found at FHFA Loan Limits .

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This summary is intended for reference only and is subject to the complete terms and conditions of Genworth's *Underwriting Guidelines* at [ml.genworth.com](#). In case of differences with this document, the *Underwriting Guidelines* will govern.

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Genworth MI Top Decision Errors



2nd Quarter 2019

Genworth's Risk Quality Assurance team creates this report to help underwriters to submit quality originations. Each quarter, you can use this report to discover the most frequently made MI decision errors and learn how to avoid them. You'll find excerpts from the associated underwriting guidelines along with corrective actions for each – including relevant examples when appropriate. Loans requiring an exception to Genworth published guidelines must be sent in for a Genworth underwrite.

Assets – Analyzing the Borrower's Assets		
Decision Error	Underwriting Guideline	Corrective Action
Assets Not Documented as Required by Program or AUS Guidelines	Genworth Section 4.1 Simply Underwrite Eligibility Follow documentation required by DU and Loan Product Advisor. Additional documentation may be warranted to support the underwriting decision.	Underwriter must ensure Genworth, AUS and Investor documentation requirements have been met for verification and documentation of assets. AUS assumes any assets required will be verified and documented in file.
Source of Funds not Adequately or Properly Documented for Large Deposits	Genworth Standard Guidelines Section 7.10 Assets and Liabilities Genworth will accept the following GSE standard underwriting guidelines for asset and liability assessment. Our policy is to: <ul style="list-style-type: none"> Follow Fannie Mae's guidelines when Fannie Mae is the investor or the Fannie Mae Selling Guide is your standard guideline set. Follow Freddie Mac's guidelines when Freddie Mac is the investor or the Freddie Mac Seller Guide is your standard guideline set. Follow the least restrictive of the agencies' guidelines for all other situations, unless a specific GSE's guideline is noted to follow for all others. 	Example 1: Missing documentation to evidence source of a large deposit in the amount of \$6,500.00. Example 2: Missing all pages to bank statements or missing second month statement if required.

continued on back page

Income – Analyzing the Borrower's Income		
Decision Error	Underwriting Guideline	Corrective Action
Verbal VOE Missing, Incomplete or Incorrect	Genworth Section 4.1 Simply Underwrite Eligibility Follow Verbal VOE requirements by DU and Loan Product Advisor. Genworth Standard Guidelines Documentation Section 7.2 Verbal VOE is required to be dated within 30 calendar days prior to the note date for both salaried and self-employed borrowers	Underwriter must ensure that AUS, Genworth and Investor documentation requirements have been met. Example 1: Missing current paystub and W-2 from the prior year or a standard VOE as required by DU. Example 2: Expired income documents. Most recent paystub provided for borrower is dated 08/01/16. Loan closed 12/15/16 (over 120 days old). Example 3: Current paystub is missing YTD income.
Income Not Documented as Required by Program and/or AUS Findings Recommendation	Genworth Section 4.1 Simply Underwrite Eligibility Follow documentation required by DU and Loan Product Advisor. Additional documentation may be warranted to support the underwriting decision. Genworth Standard Guidelines Documentation Requirements Section 7.1 Genworth will accept the following GSE Standard underwriting guidelines for Income & Employment. Our policy is to: <ul style="list-style-type: none"> Follow Fannie Mae's guidelines when Fannie Mae is the investor or the Fannie Mae Selling Guide is your standard guideline set. Follow Freddie Mac's guidelines when Freddie Mac is the investor or the Freddie Mac Seller Guide is your standard guideline set. Follow the least restrictive of the agencies' guidelines for all other situations, unless a specific GSE's guideline is noted to follow for all others. 	Example 4: Borrower has a 2 year job history per 1003 but started a new job mid-year. A lender is required to obtain documentation from the previous employer. The loan file needs to reflect all YTD income and address any employment gaps. There should be evidence of continuity of income.

Program – Analyzing the Program		
Decision Error	Underwriting Guideline	Corrective Action
Loan received Approve/ Ineligible or Accept/ Ineligible and didn't meet Genworth Standard Guidelines	Genworth Section 3.5 Standard Guidelines Genworth's Standard Guidelines apply to loans that are manually underwritten without a GSE AUS recommendation or risk classification or loans that are not eligible for our Simply Underwrite Guidelines. These loans can either be submitted to Genworth for a full package underwrite (Genworth underwrite) or underwritten by the lender using its delegated underwriting authority. Underwrite your loans to GSE standards with the exceptions and additional requirements/clarifications in our underwriting manual and your loan will be eligible for our insurance. When Genworth's underwriting manual is "silent" and does not address a guideline, the lender must follow GSE standard guidelines.	Underwriter must ensure Genworth documentation and program requirements have been met.

For More Information

Contact us at action.center@genworth.com or 800.444.5664 for questions or to give us feedback.

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<https://new.mi.genworth.com/underwriting-tips-and-credit-policy>

Assets – Analyzing the Borrower's Assets

Decision Error	Underwriting Guideline	Corrective Action
<p>Assets Not Documented as Required by Program or AUS Guidelines</p> <p>Source of Funds not Adequately or Properly Documented for Large Deposits</p>	<p>Genworth Section 4.1 Simply Underwrite Eligibility Follow documentation required by DU and Loan Product Advisor. Additional documentation may be warranted to support the underwriting decision.</p> <p>Genworth Standard Guidelines Section 7.10 Assets and Liabilities Genworth will accept the following GSE standard underwriting guidelines for asset and liability assessment. Our policy is to:</p> <ul style="list-style-type: none"> • Follow Fannie Mae's guidelines when Fannie Mae is the investor or the Fannie Mae Selling Guide is your standard guideline set • Follow Freddie Mac's guidelines when Freddie Mac is the investor or the Freddie Mac Seller Guide is your standard guideline set • Follow the least restrictive of the agencies guidelines for all other situations, unless a specific GSE's guideline is noted to follow for all others. 	<p>Underwriter must ensure Genworth, AUS and Investor documentation requirements have been met for verification and documentation of assets. AUS assumes any assets required will be verified and documented in file.</p> <p>Example 1: Missing documentation to evidence source of a large deposit in the amount of \$6,500.00.</p> <p>Example 2: Missing all pages to bank statements or missing second month statement if required.</p>

Income – Analyzing the Borrower's Income

Decision Error	Underwriting Guideline	Corrective Action
Verbal VOE Missing, Incomplete or Incorrect	<p>Genworth Section 4.1 Simply Underwrite Eligibility Follow Verbal VOE requirements by DU and Loan Product Advisor.</p> <p>Genworth Standard Guidelines Documentation Section 7.2 Verbal VOE is required to be dated within 30 calendar days prior to the note date for both salaried and self-employed borrowers</p>	<p>Underwriter must ensure that AUS, Genworth and Investor documentation requirements have been met.</p> <p>Example 1: Missing current paystub and W-2 from the prior year or a standard VOE as required by DU.</p> <p>Example 2: Expired income documents. Most recent paystub provided for borrower is dated 08/01/16. Loan closed 12/15/16 (over 120 days old).</p> <p>Example 3: Current paystub is missing YTD income.</p> <p>Example 4: Borrower has a 2 year job history per 1003 but started a new job mid-year. A lender is required to obtain documentation from the previous employer. The loan file needs to reflect all YTD income and address any employment gaps. There should be evidence of continuity of income.</p>
Income Not Documented as Required by Program and/or AUS Findings Recommendation	<p>Genworth Section 4.1 Simply Underwrite Eligibility Follow documentation required by DU and Loan Product Advisor. Additional documentation may be warranted to support the underwriting decision.</p> <p>Genworth Standard Guidelines Documentation Requirements Section 7.1 Genworth will accept the following GSE Standard underwriting guidelines for Income & Employment. Our policy is to:</p> <ul style="list-style-type: none"> • Follow Fannie Mae's guidelines when Fannie Mae is the investor or the Fannie Mae Selling Guide is your standard guideline set • Follow Freddie Mac's guidelines when Freddie Mac is the investor or the Freddie Mac Seller Guide is your standard guideline set • Follow the least restrictive of the agencies guidelines for all other situations, unless a specific GSE's guideline is noted to follow for all others. 	

Genworth MI Decision Tips Updated Every Quarter

Program – Analyzing the Program

Decision Error	Underwriting Guideline	Corrective Action
Loan received Approve/Ineligible or Accept/Ineligible and didn't meet Genworth Standard Guidelines	<p>Genworth Section 3.5 Standard Guidelines Genworth's Standard Guidelines apply to loans that are manually underwritten without a GSE AUS recommendation or risk classification or loans that are not eligible for our Simply Underwrite Guidelines. These loans can either be submitted to Genworth for a full package underwrite (Genworth underwrite) or underwritten by the lender using its delegated underwriting authority.</p> <p>Underwrite your loans to GSE standards with the exceptions and additional requirements/clarifications in our underwriting manual and your loan will be eligible for our insurance.</p> <p>When Genworth's underwriting manual is "silent" and does not address a guideline, the lender must follow GSE standard guidelines.</p>	Underwriter must ensure Genworth documentation and program requirements have been met.

Genworth Underwriting Guidelines



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Underwriting Tips



Underwriting Tips for Contract Underwritten Loans

Genworth's Contract Underwriting team wants to help you get your loan to closing as fast as possible. We have prepared this tip sheet with top 3 areas of focus of frequent conditions on contract underwritten loans to help minimize Prior-to-Closing conditions and get your loan to closing as fast as possible.

Earnest Money Deposit (EMD) Not Documented as Required by Program or AUS Guidelines

SCENARIOS	HELPFUL TIPS
Copy of EMD check provided dated 3.29.19, however, most recent bank statement for the account the EMD was written from was dated 3.15.19	<ol style="list-style-type: none"> 1. Provide updated bank statement or transaction history reflecting the EMD check dated 3.29.19 has cleared 2. Update 1003/1008/AUS findings with the updated bank account balance per statement/history after the date the EMD check cleared
Copy of EMD check for \$5,000 dated 3.29.19, however, most recent bank statement for the account the EMD was written from was dated 3.15.19 and balance was \$129,04	<ol style="list-style-type: none"> 1. Provide updated bank statement or transaction history reflecting the EMD check dated 3.29.19 has cleared the account 2. Document the source of any/all large deposit(s) (as defined by Fannie Mae/Freddie Mac or Investor guidelines) that may have been used for funds to make the EMD 3. Update 1003/1008/AUS findings with the updated bank balance per statement/history after the EMD check cleared the account
EMD was listed as an "Other credit" in the Details of Transaction of 1003, but the file contained no documentation verifying the EMD and/or source	<ol style="list-style-type: none"> 1. Provide copy of EMD check 2. Provide copy of bank statement(s) or VOD for time period that covers up to & including the date the EMD cleared the borrower's account

Agency Guideline References for EMD(s):

- Fannie Mae Selling Guide: Section B3-4.3-09, Earnest Money Deposit & Section B3-4.4-02, Documentation Requirements
- Freddie Mac Selling Guide: Section 5501.3, Asset eligibility & documentation requirements > (b)(ii) - Earnest Money Deposit (EMD)

**NOTE: Investor Guidelines/Overlays may differ from Fannie Mae/Freddie Mac requirements

continued on back

Gift Not Documented as Required by Program or AUS Guidelines

SCENARIOS	HELPFUL TIPS
Borrower(s) EMD of \$7,500 came from gift funds	<ol style="list-style-type: none"> 1. Provide fully executed gift letter for gift funds of \$7,500 for the EMD funds 2. Verify the donor's availability of funds and their transfer of funds for the EMD 3. Ensure the 1003/1008/AUS reflect the source of EMD for \$7,500 was from a gift
A source of borrower(s) funds to close is coming from a gift	<ol style="list-style-type: none"> 1. Provide fully executed gift letter 2. Verify the donor's availability of funds and document transfer of gift funds to borrower(s) <p>**For gift funds not transferred until closing, please ensure either the gift letter reflects - OR - provide other indication of this in the file</p> <ol style="list-style-type: none"> 3. Ensure the 1003/1008/AUS reflect the gift amount as source of funds to close
Borrower(s) savings account has a balance of \$12,000, but recently had a large deposit of \$10,000. It was determined the source of this deposit was from a gift	<ol style="list-style-type: none"> 1. Provide fully executed gift letter for gift funds of \$10,000 2. Provide evidence the large deposit borrower received, came from the gift donor & donor's availability of funds 3. Update 1003/AUS findings as follows <ul style="list-style-type: none"> • Reduce the qualifying balance in savings account to \$2,000 • Add a separate gift asset of \$10,000 • Re-run AUS findings with the updated asset information

Agency Guideline References for Gift(s):

- Fannie Mae Selling Guide: Section B3-4.3-04, Personal Gifts; Section B3-4.3-05, Gifts of Equity; Section B3-4.3-06, Donations from Entities; & Section B3-4.4-02, Documentation Requirements
- Freddie Mac Selling Guide: Section 5501.3, Asset eligibility & documentation requirements > (c)(1,2,3) - Special Requirements for other eligible source of funds

**NOTE: Investor Guidelines/Overlays may differ from Fannie Mae/Freddie Mac requirements

Complete W2 and/or Tax Transcript(s)

HELPFUL TIP

Consult Investor Guidelines/Overlays pertaining to tax transcripts to determine if transcripts (W2, Tax) are required.

NOTE: Fannie Mae & Freddie Mac do not require W2 or tax transcripts, only a signed-dated 4506-T.

If you have questions, contact your Genworth Regional Underwriter or visit our website at mi.genworth.com

For any additional training from Genworth on these topics and more please visit our Training/Webinar catalog for loan processors at new.mi.genworth.com/course-catalog.

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Genworth offers a comprehensive suite of training opportunities to boost your know-how, benefit your bottom line and ultimately best serve your borrowers. With more than 90 courses in our catalog, our team is here to help you stay up-to-date on the mortgage industry and regulatory environment. Classes are all offered at no cost to you.

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Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically.

Fannie Mae Form 1084 Calculator (2017-2018) Calculate and analyze cash flows to help you complete Fannie Mae Form 1084. UPDATED	Freddie Mac Form 91 Calculator (2017-2018) Quick reference guide and income analysis for Freddie Mac Form 91. UPDATED	Freddie Mac Form 92 Calculator (2017-2018) Form 92 Net Rental Income Calculators - Schedule D. UPDATED
Schedule Analysis Method (SAM) Calculator (2017-2018) Calculate qualifying income from day returns. UPDATED	Rental Income Calculator (2017-2018) Assists in calculating rental income from IRS Form 1040 Schedule E. UPDATED	Current Ratio - Liquidity Calculator (2017-2018) Calculate working capital liquidity against current liabilities. UPDATED
Quick Ratio - Liquidity Calculator (2017-2018) Calculate an organization's liquidity against current liabilities. UPDATED	Fannie Mae Rental Guide (Calculator 1037) Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1037 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Common Underwriting Errors

Capacity, Credit History, Capital, Compliance

Underwriting Reminders

Every loan is unique

Always follow prudent underwriting standards

Information must be consistent

All applicable guidelines should be followed

Guidelines show minimum requirements

Five Cs

Capacity

Credit History

Collateral

Capital

Compliance

Six Cs

Capacity

Credit History

Collateral

Capital

Compliance

Common Sense

Capacity Errors

Income Calculation and Documentation, Self-Employed Borrowers

Capacity- Income

Steady, Stable, Likely to Continue

- Two Year History
- Guideline exceptions for some income types
- Examples: Alimony, Survivor Benefits, Retirement
 - Three Year Continuance from application date
- Is there a decline? If so has the income stabilized?
 - Provide documentation to support
- Job change, provide ALL W-2s from prior year or years depending on verification message

Documentation

- READ the AUS results
- Check for overlays
- Seek additional documentation if:
 - Inconsistent
 - Discrepancies
 - Possible misrepresentation-google® the business, look at a satellite map, Secretary of State website

Capacity: Fannie Mae

Expiration Date Not Defined	Defined Expiration Date*
Lender does not need to document 3-year continuance <ul style="list-style-type: none">• automobile allowance• base salary• bonus, overtime, commission, or tip income• capital gains income• corporate retirement or pension	Lender must document 3-year continuance <ul style="list-style-type: none">• alimony or child support• distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh• mortgage differential payments• notes receivable• public assistance

Fannie Mae Single Family Selling Guide

§B3-3.1-01, Employment and Other Sources of Income

- | | |
|--|--|
| <ul style="list-style-type: none">• mortgage credit certificates• part-time job, second job, or seasonal income• rental income• self-employment income• Social Security, VA, or other government retirement or annuity | <ul style="list-style-type: none">• VA benefits (not including retirement or long-term disability) |
|--|--|

Capacity: Fannie Mae

Selling Guide


Published August 7, 2019

[Guide Table of Contents](#)

Part B: Origination Through Closing

This part provides the requirements for originating conventional sale to Fannie Mae.

Search guide content



Ask Poli

Answers to your Guide-related questions, all in one place.

Go ahead, Ask Poli

Selling Guide Update Publication Schedule

B1: Loan Application Package

This subpart describes the documentation required in application packages for loans to be delivered to Fannie Mae. It describes the allowable [More...](#)

B1-1: Application Package Documentation

This chapter describes the documents that must be included in the loan application package, and provides a sample Blanket Authorization [More...](#)

B2: Eligibility

This subpart describes Fannie Mae's mortgage, borrower, and property eligibility policies and occupancy type requirements.

B2-1: Mortgage Eligibility

This chapter explains the requirements related to mortgage eligibility.

B2-2: Borrower Eligibility

This chapter explains the requirements related to borrower eligibility.

B5: Unique Considerations

This subpart describes the requirements for originating loans, property, and occupancy type requirements.

B5-1: High-Risk Occupancy

This chapter describes the requirements for high-risk occupancy loans.

B5-2: Manufactured Housing

This chapter describes the requirements for originating manufactured housing loans secured by a manufactured home.

B5-2-01: Manufactured Housing

This topic contains information on the requirements for manufactured housing.

B5-2-02: Manufactured Housing

This topic contains information on the requirements for manufactured housing.

B3-3: Income Assessment

This chapter describes the requirements for evaluating income stability, adequacy, and likelihood of continuance — key factors used in [More...](#)

B3-3.1: Employment and Other Sources of Income

- [B3-3.1-01: General Income Information \(12/04/2018\)](#)
- [B3-3.1-02: Standards for Employment Documentation \(10/24/2016\)](#)

This topic contains information on the standards for documentation of employment income, [More...](#)
- [B3-3.1-03: Base Pay \(Salary or Hourly\), Bonus, and Overtime Income \(05/15/2012\)](#)

This topic contains information on base pay (salary and hourly), bonus, and overtime income, [More...](#)
- [B3-3.1-04: Commission Income \(12/04/2018\)](#)

This topic contains information on the verification of commission income.
- [B3-3.1-05: Secondary Employment Income \(Second Job and Multiple Jobs\) and Seasonal Income \(05/27/2014\)](#)

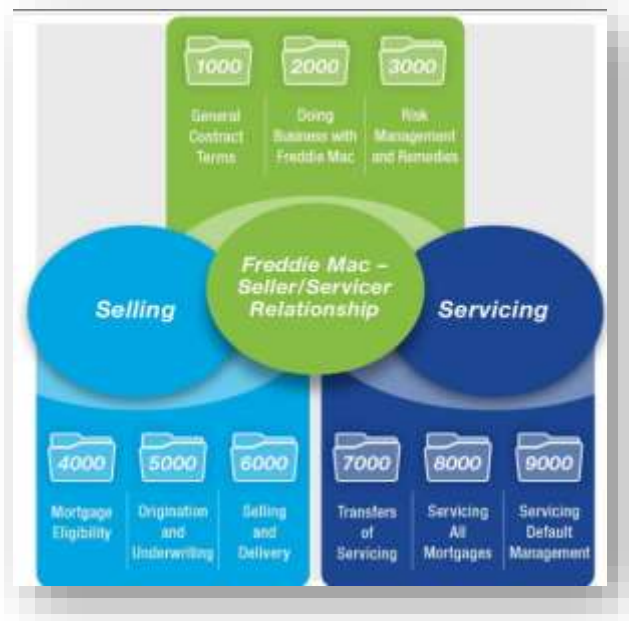
This topic contains information on income from secondary and seasonal employment, [More...](#)

<https://www.fanniemae.com/content/guide/selling/b/index.html>

Capacity: Freddie Mac

Topic 5300: Stable Monthly Income and Asset Qualification Sources

- + Chapter 5301: General Requirements for All Stable Monthly Income and Asset Qualification Sources
- + Chapter 5302: General Documentation Requirements
- + Chapter 5303: Employed Income
- + Chapter 5304: Self-Employed Income
- + Chapter 5305: Other Income
- + Chapter 5306: Rental Income
- + Chapter 5307: Asset Qualification Sources



Capacity: Freddie Mac

Income continuance charts were added to Topic 5301.1

- **Income and earnings types typically without documentable continuance**
- **Income types with documentable continuance**
- **Other income types that may or may not have documentable continuance**

Freddie Mac's Single-Family Seller/Servicer Guide Series 5000: Origination and Underwriting

Topic 5300: Stable Monthly Income and Asset Qualification Sources

Chapter 5301: General Requirements for All Stable Monthly Income and Asset Qualification Sources

Capacity

Examine Paystubs Carefully

- Clear explanations for withholding items
 - Possible undisclosed debt
- Consistent information
 - Address on the stub does it match the 1003?
 - Social Security number
 - Last four digits match the 1003?
- Year to date income
 - Showing on paystub, does it support qualifying income
 - Review prior year or years with ytd and qualifying income...Consistent?
- Stale dated?
- Year End paystubs for borrowers with OT, bonus, commission incomes or
- Verification of Employment for clarity on
 - OT
 - Bonus
 - Commission
- See next slide for examples

Employment/Income - Fully Completed VOE (Form 1005)

Missing Loan Submission Documentation	Examples & Helpful Tips	Agency Guideline References
<p>Borrower(s) breakdown of earnings for:</p> <ul style="list-style-type: none"> • Bonus • Overtime • Commission • Other pay types <p>Via a fully completed Verification of Employment (VOE)</p>	<p>Example 1: Borrower is paid hourly, however, paystub(s) provided reflect a varied number of hours per week.</p> <p>Helpful Tip:</p> <ol style="list-style-type: none"> 1. Provide fully completed Verification of Employment 2. Ensure the employer completes all sections of the Verification of Employment form (including – “If paid hourly – average hours per week”) <ol style="list-style-type: none"> a. TIP: If borrowers prior year(s) earnings are not in line with current YTD earnings, employer to address in “Remarks” section for any significant increase/decrease in current pay vs. prior year(s) earnings. <hr/> <p>Example 2: Borrower is paid a Base Salary, however, also receives Overtime, Bonus, or Commission(s) income that is needed to qualify. Paystub(s) reflect Base income, and Overtime, Bonus, or Commission(s), per pay period and YTD, however W2(s) only reflect total earnings with no breakdown of income.</p> <p>Helpful Tips:</p> <ol style="list-style-type: none"> 1. Provide fully completed Verification of Employment 2. Ensure the employer completes all sections of the Verification of Employment form including a full breakdown of income including Base, Overtime, Bonus, or Commission(s) for YTD and prior year(s) as required by AUS and/or Program Guidelines <ol style="list-style-type: none"> a. TIP: Make sure the employer indicates if the Overtime, Bonus or Commission(s) are likely to continue b. TIP: If Overtime, Bonus, or Commission(s) prior year(s) earnings are not in line with current YTD earnings, employer to address in “Remarks” section for any significant increase/decrease in current pay vs prior year(s) earnings 	<p>Fannie Mae Selling Guide:</p> <ul style="list-style-type: none"> • Section B3-3 – Income Assessment (Various Sections depending on Income type) • Section B3-2-2 – DU Validation Service <p>Freddie Mac Selling Guide:</p> <ul style="list-style-type: none"> • Section 5102.3, General requirements for verifying documents <ul style="list-style-type: none"> • (a) – Written Verifications • Section 5300 – Stable Monthly Income and Asset Qualification Sources (Various Sections depending on Income Type) • Section 5901 – Automated Income Assessment with Loan Product Advisor <p><i>*Note: Investor Guidelines/Overlays may differ from Fannie Mae/Freddie Mac Requirements</i></p>

Capacity

Income Trend/Declining Income

- Can the income be used to qualify?
- If so, use only the lower of the two years

Fannie Mae Comparative Income Form (Form 1088)

- For Self-Employed Borrowers
- Reference Guide on the Genworth website

Fannie Mae Comparative Income Analysis

Borrower Name: _____
Company Name: _____

General Instructions: This form is to be used to compare the borrower's business over a period of years. Each year is defined as follows:

Gross Income: Gross receipts or sales (1) Returns and Allowances
Expenses: Cost of goods sold (2) Total Deductions
Taxable Income: (3) = (1) - (2)

IRS Form 1040, Schedule C = Net Profit or Loss (Sole Proprietorship)
IRS Form 1040 = Ordinary Income or Loss (Partnership)
IRS Form 1120S = Ordinary Income or Loss (S Corporation)
IRS Form 1120 = Taxable Income (Corporation)

Calculation Instructions: Determine year-over-year trends in gross income, expenses, and taxable income as described below.

Gross Income:
Step 1. Enter the gross income figure from each year's statement where indicated.
Step 2. Determine the percentage change in gross income from one year to the next by:
(a) calculating the dollar difference between the two years, and then
(b) dividing the dollar difference by the previous year's gross income.
Enter the percentage of increase or decrease where indicated. Be sure to indicate a "+" (plus) or "-" (minus) sign.

Year	2014	2013	2012
Gross Income			
% Change	(1) of (2) = % change	(1) of (2) = % change	

Expenses:
Step 1. Enter the expense income figure from each year's statement where indicated.
Step 2. Determine what percentage expense is of gross income by dividing the expense amount by the dollar amount of gross income for each year. Enter the results where indicated.
Step 3. Determine the percentage change in expenses from one year to the next by:
(a) calculating the dollar difference between the two years, and then
(b) dividing the dollar difference by the previous year's gross income.
Enter the percentage of increase or decrease where indicated. Be sure to indicate a "+" (plus) or "-" (minus) sign.

Year	2014	2013	2012
Expenses			
% Change	(1) of (2) = % change	(1) of (2) = % change	

*The expenses and taxable income each period as a percentage of gross income for that period.
**The percentage change for each year from the previous period.

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Quick Reference Guide: Fannie Mae's Comparative Analysis Form (Form 1088)

Fannie Mae's Comparative Income Analysis Form (Form 1088) leads the lender through the calculation of percentage increases (or decreases) in gross income, expenses and taxable income, as well as taxable income trends.

This form can be used with any business return, including Sole Proprietor (IRS Form 1040, Schedule C or C-22), Partnership (IRS Form 1065), S-Corp (IRS Form 1120S) and Corporate (IRS Form 1120). The guide below shows the line numbers for each form where the information can be found.

Fannie Mae Comparative Income Analysis

Borrower Name: _____
Company Name: _____

General Instructions: This form is to be used to compare the borrower's business over a period of years. Each year is defined as follows:

Gross Income: Gross receipts or sales (1) Returns and Allowances
Expenses: Cost of goods sold (2) Total Deductions
Taxable Income: (3) = (1) - (2)

IRS Form 1040, Schedule C = Net Profit or Loss (Sole Proprietorship)
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Calculation Instructions: Determine year-over-year trends in gross income, expenses, and taxable income as described below.

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Step 1. Enter the gross income figure from each year's statement where indicated.
Step 2. Determine the percentage change in gross income from one year to the next by:
(a) calculating the dollar difference between the two years, and then
(b) dividing the dollar difference by the previous year's gross income.
Enter the percentage of increase or decrease where indicated. Be sure to indicate a "+" (plus) or "-" (minus) sign.

Year	2014	2013	2012
Gross Income			
% Change	(1) of (2) = % change	(1) of (2) = % change	

Expenses:
Step 1. Enter the expense income figure from each year's statement where indicated.
Step 2. Determine what percentage expense is of gross income by dividing the expense amount by the dollar amount of gross income for each year. Enter the results where indicated.
Step 3. Determine the percentage change in expenses from one year to the next by:
(a) calculating the dollar difference between the two years, and then
(b) dividing the dollar difference by the previous year's gross income.
Enter the percentage of increase or decrease where indicated. Be sure to indicate a "+" (plus) or "-" (minus) sign.

Year	2014	2013	2012
Expenses			
% Change	(1) of (2) = % change	(1) of (2) = % change	

*The expenses and taxable income each period as a percentage of gross income for that period.
**The percentage change for each year from the previous period.

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Genworth calculators can be found at <https://mi.genworth.com/training>

Capacity: Self-Employed Income

Fannie Mae Income Calculations

– Bulletin 2016-05

- Clarification in determining adequate business liquidity when required
- Eliminated the requirement to document the borrower's access to income
- Extended the VVOE on Self-Employed from 30 days prior to the note to 120 days

Capacity: Self-Employed Income

Freddie Mac Income Calculations

– Bulletin 2016-19

- Distributions are not required for partnerships and S corporations but business must be capable of paying out profit and generating future earnings

– Documentation requirements

- Borrower must be self-employed (have ownership interest of 25% or more) in the same business for at least five years to obtain one year tax returns;
- Borrowers that are self-employed in the same business less than five years two years tax returns are required
- Verification of existence of the business required and must be completed prior to delivery date but not more than 120 days prior to the Note date.

– Bulletin 2018-15

- Updated policy for self-employment when disclosed and not used for qualifying. Income or loss not required to be evaluated or documented for each borrower when:
 - Has a primary source of income, other than self-employment, used for qualifying the Mortgage and
 - Is self-employed, and the self-employment income is a secondary source of income

Capacity: Self-Employed Income

Freddie Mac Income Documentation

Documentation Requirements

(Guide Section [5304.1\(h\)](#))

The Seller must establish and calculate the stable monthly qualifying income using at least the following required documentation. Additional documentation may be warranted to support income stability.

- Freddie Mac Form 91, Income Analysis Form, or an alternative form that provides the same information
Note: Effective March 1, 2019, a revised version of [Form 91](#) applies
- Verification of the current existence of the business as described in Guide Section 5304.1(g)
- Federal income tax returns, including all applicable schedules and forms must reflect at least 12 months of self-employed income.
- Verification of how long the business has been in existence
 - For partnerships, S corporations and corporations, the federal income tax return(s) for the business must indicate the number of years that the business has been in existence
 - For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on Uniform Residential Loan Application

	Business in existence \geq 5 years ¹	Business in existence < 5 years
Sole proprietorship	Obtain complete signed federal individual (Form 1040) income tax return for the most recent year.	Obtain complete signed federal individual (Form 1040) income tax returns for the most recent two years.
Partnership	Verify the number of years that the business has been in existence and obtain complete signed federal individual and Partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent year.	Verify the number of years that the business has been in existence and obtain complete signed federal individual and Partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent two years.

¹ The Borrower must be self-employed (i.e., have an ownership interest of 25% or more) in the same business for at least five years.

Capacity

Show Your Income Calculation Work

- Agencies/Investors require calculations for all income scenarios
 - Have a worksheet or address how income was calculated and maintain in file
- Self-Employed Borrowers
 - Written analysis
 - Available Worksheets on The Genworth Website without requiring an ID or password
 - Fannie Mae Cash Flow Analysis (Form 1084)
 - Freddie Mac Income Analysis (Form 91)
 - Schedule Analysis Method (SAM)
 - Base, OT, Commission, Other Income Worksheet
 - Rental Worksheets: Form 92, 1037, 1038, 1039
 - Fannie Mae Form 1088
 - Liquidity (Quick and Current Ratio)
 - All Genworth calculators can be found at <https://new.mi.genworth.com/self-employed-borrower-calculators>
 - Written explanation is helpful along with the worksheet

Credit History Errors

Credit Scores, Credit Reports, Liabilities

Credit History

Credit Concerns Not Always Recognized by AUS or Common Errors

– Examples of Errors

- No evidence in file why you are *omitting a debt
- Taxes and insurance for properties owned free and clear omitted
- Debts evidenced on paystub or disclosed during initial application
- Paid mortgage tradeline with paid P&L noted in the comments section with no explanation or documentation
- Borrower paying off debt but funds are not sourced (only have funds to close verified)

– Significant derogatory events

- Financial mismanagement
- Extenuating circumstances?
 - Does my investor allow for extenuating circumstances?
- Re-established credit requirements met?
- Waiting period met ?

****See Fannie Mae Selling Guide or Freddie Mac Seller/Servicer Guide for guidance on excluding debts from a borrower's DTI Ratio.***

Credit History

Credit Scores

- Minimum score requirement?
 - Non-traditional credit borrowers (without a credit score) eligible for AUS submission with Fannie Mae's Desktop Underwriter® 10.0
 - Two non-traditional credit references must be reviewed and one must be housing related
 - See Selling Guide §B3-5.4-03: Verification and Documentation of Alternative Credit
 - Non-traditional credit borrowers (without a credit score) eligible for AUS submission with Freddie Mac's Loan Product Advisor May 14, 2017
 - Two Non-traditional tradelines must be verified and one must be housing related
 - See Freddie Mac Bulletin 2017-02 for more details
- Within definition
 - Genworth Simply UnderwriteSM
 - 620 minimum credit score
 - No additional requirements with valid AUS Approve/Accept Eligible recommendation
 - Genworth Standard Guidelines (Non-AUS)
 - Minimum of three (3) tradelines / credit references
 - Open or closed
 - That have been evaluated at least 12 months
- Lender, Investor, GSE requirement met?

Credit History

Credit History

– Trended Credit Data

- Additional information can be found in [Fannie Mae's DU Version 10.0 Frequently Asked Questions](#)
- Credit reports used with Version 10.0 must include trended credit data
- For now, lenders do not need to analyze trended data
- Borrowers making minimum monthly revolving account payments may still be able to receive an Approve recommendation from DU

Research has shown that borrowers who	are	than borrowers who
Never exceed their limit	75% less likely to become delinquent	Exceeded their credit card limit in the last 12 months
Pay off their credit card every month	60% less likely to become delinquent	Only make their minimum payment each month

Credit History

Disputed Information

– AUS Loans

- DU provides messaging if impactful and further action necessary
- Loan Product Advisor will provide “Invalid” recommendation if impactful
- Manually underwritten typically significant items must be resolved prior to approval

Inaccurate Information

- Determine impact (Was AUS credit score impacted?)
- Obtain
 - Written explanation from Borrower
 - Credit report supplement
 - New credit report
 - Creditor documentation
- Manually underwritten loans
 - Reporting company confirms inaccuracy
 - Credit report unreliable
 - Traditional credit evaluation without regard to inaccurate information
 - Investors often require the “inaccuracy” be cleared and resolved before loan approval

Credit History

Minimum Payments

- Usually on credit report. If not on credit report
 - Creditor supplied documentation
 - Revolving,
 - DU uses the greater of:
 - 5% of outstanding balance or
 - \$10
 - Loan Product Advisor allows
 - 5% of outstanding balance

Open Ended Accounts (O-J or O-I under MOP on Credit Report)

- Sufficient funds for repayment plus funds to close and reserves
 - Yes
 - Inclusion not required
 - No
 - Inclusion of 5% outstanding balance required for Freddie Mac if no payment listed
 - Cannot close loan for Fannie Mae
- Third party responsibility
 - Example: employer reimbursement
 - Document with letter from employer/responsible party

Credit History

Student Loans

– Fannie Mae

Student Loans

If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.

- If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment.
- For deferred loans or loans in forbearance, the lender may calculate
 - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
 - a fully amortizing payment using the documented loan repayment terms.

Guidelines Stated Are Generic Fannie Mae Policy

Credit History

Student Loans

– Freddie Mac

Topic	Documentation Requirements						
Student Loans (Guide Section 5401.2)	<table> <tr> <th>Debt Type</th><th>Eligibility and Documentation Requirements</th></tr> <tr> <td>In repayment, forbearance or deferment</td><td> <ul style="list-style-type: none"> ▪ If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or ▪ If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report. </td></tr> <tr> <td>In loan forgiveness, cancellation, discharge and employment-contingent repayment programs</td><td> <p>The monthly payment amount may be excluded from the monthly DTI ratio provided the mortgage file contains documentation that indicates the following:</p> <ul style="list-style-type: none"> ▪ The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or paid, or ▪ The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, cancelled, discharged or paid at the end of the deferment or forbearance period <p>AND</p> <ul style="list-style-type: none"> ▪ The borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and the Seller is not aware of any circumstances that will make the borrower ineligible in the future </td></tr> </table>	Debt Type	Eligibility and Documentation Requirements	In repayment, forbearance or deferment	<ul style="list-style-type: none"> ▪ If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or ▪ If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report. 	In loan forgiveness, cancellation, discharge and employment-contingent repayment programs	<p>The monthly payment amount may be excluded from the monthly DTI ratio provided the mortgage file contains documentation that indicates the following:</p> <ul style="list-style-type: none"> ▪ The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or paid, or ▪ The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, cancelled, discharged or paid at the end of the deferment or forbearance period <p>AND</p> <ul style="list-style-type: none"> ▪ The borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and the Seller is not aware of any circumstances that will make the borrower ineligible in the future
Debt Type	Eligibility and Documentation Requirements						
In repayment, forbearance or deferment	<ul style="list-style-type: none"> ▪ If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or ▪ If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report. 						
In loan forgiveness, cancellation, discharge and employment-contingent repayment programs	<p>The monthly payment amount may be excluded from the monthly DTI ratio provided the mortgage file contains documentation that indicates the following:</p> <ul style="list-style-type: none"> ▪ The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or paid, or ▪ The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, cancelled, discharged or paid at the end of the deferment or forbearance period <p>AND</p> <ul style="list-style-type: none"> ▪ The borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and the Seller is not aware of any circumstances that will make the borrower ineligible in the future 						

Prudent Underwriting Practices Will Apply

Credit History

Excluding Debts – Contingent Liabilities or Not

– Fannie Mae and Freddie Mac

- Allows for any type debt (revolving, leases, student loans & mortgage debt)
 - Must document 12 month payment history with no delinquencies
 - Evidence payments made by someone other than borrower(s)
 - Mortgaged properties must be counted in the maximum financed properties. See additional guidelines regarding use of rental income.
 - For mortgages payments to be excluded, the person making the payments must be obligated on the mortgage debt

– Situations requiring inclusion in debt ratio

- Obligor's payment not documented
- Sufficient history (12 months) not established
- History of Delinquency
- Business debt not paid from separate business account
 - Cannot be borrower's personal account
 - Cannot be business account from which personal debts are paid

Credit History

Recent Credit Inquiries

– Definition

- Freddie Mac: within past 90 days
 - Review updated messages on Loan Product Advisor Feedback

Topic	Documentation Requirements
Credit report inquiries within previous 90 days (Guide Sections 5201.1(e) and 5202.6)	Determine if additional credit was granted. If additional credit was granted, verification of the debt must be obtained and the debt must be considered when qualifying the borrower.

- Fannie Mae: The report must list all inquiries that were made in the previous 90 days.

– Confirm if new credit obtained

- Do you see the new account on credit report?
- Was it disclosed on application?
- Obtain verification
 - Freddie Mac documentation examples
 - Creditor letter
 - Signed borrower letter
- Include in ratios
- See next slide for examples

Credit - Credit Report Inquiries

Missing Loan Submission Documentation	Examples & Helpful Tips	Agency Guideline References
Credit Inquiry Letter as required by AUS and/or Program Guidelines	<p>Example 1: Borrower's credit report shows an auto lease with 2 months left to pay, and Inquiries section shows 11 inquiries recently from auto dealerships.</p> <p>Helpful Tips:</p> <ol style="list-style-type: none"> 1. AUS/Guidelines did not require an inquiries action, however, the following action(s) would be necessary 2. Provide a signed/dated LOX regarding the inquiries from the borrower addressing the inquiries 3. If the borrower purchased/leased a new automobile: <ol style="list-style-type: none"> a. Updated 1003/1008/AUS including the new additional debt in borrower's qualifying ratios b. Provide documentation to verify the new debt (e.g. – Promissory Note, Lease Agreement, Monthly statement) 	<p>Fannie Mae Selling Guide:</p> <ul style="list-style-type: none"> • Section B3-5.3-04: Inquiries: Recent Attempts to Obtain New Credit • Section B3-5.2-09: DU Credit Report Analysis <p>Freddie Mac Selling Guide:</p> <ul style="list-style-type: none"> • Section 5201.1: Credit Assessment with Loan Product Advisor – (e) – Inquiries • Section 5202.3: Evaluating Borrower credit reputation for Manually Underwritten Mortgages • Section 5202.6: Evaluating other credit information – (a) – Inquiries <p><i>*Note: Investor Guidelines/Overlays may differ from Fannie Mae/Freddie Mac Requirements</i></p>
	<p>Example 2: Loan was submitted to LPA and borrower's credit report reflects 4 various inquiries within the last 90 days.</p> <p>Helpful Tips:</p> <ol style="list-style-type: none"> 1. LPA feedback returned a feedback message for at least 1 creditor inquiry within the previous 90 days 2. Provide a signed/dated LOX regarding the inquiries from the borrower addressing each of the inquiries 3. If any new credit was granted as a result of these inquiries: <ol style="list-style-type: none"> a. Obtain verification of the new debt (payment and terms) b. Updated 1003/1008/AUS including the new additional debt in borrower's qualifying ratios 	

Capital Errors

Assets to Close, Borrower's Own Funds, Gift Funds, Reserves and Large Deposits

Capital

Excessive Seller Contributions

- Follow GSE, Investor and MI Guidelines
- Loans with payment abatements are ineligible
 - Exception condo/HOA dues up to 12 months but amounts must included as IPC
- Check for guideline overlays
- See guidelines on next slides

IPC's- Fannie Mae

The screenshot shows the Fannie Mae website interface. At the top is the Fannie Mae logo and a search bar. Below the logo is a navigation menu with links: Single-Family, Originating & Underwriting, Pricing & Execution, Delivering, Servicing, Training, and Technology. The main content area is divided into two columns. The left column is titled 'Selling Guide' and includes the text 'Published May 1, 2018' and a link to 'Guide Table of Contents'. The right column is titled 'B3-4.1-02: Interested Party Contributions (IPCs) (12/19/2017)' and contains the text 'This topic contains information on interested party contributions, including:' followed by four links: 'Overview', 'IPC Limits', 'Lender Checklist for IPCs', and 'Lender Incentives for Borrowers'.

IPC Limits

The table below provides IPC limits for conventional mortgages.

IPCs that exceed these limits are considered sales concessions. The property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum, and the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value.

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Principal residence or second home	Greater than 90%	3% ¹
	75.01% – 90%	6%
	75% or less	9%
Investment property	All CLTV ratios	2%

IPC's- Freddie Mac

Reference

Single-Family Seller/Servicer Guide
Single-Family Seller/Servicer Guide
Selling
Series 5000: Origination and Underwriting
Topic 5500: Assets
Chapter 5501: Assets

E-mail Text

5501.5: Interested party contributions (07/06/17)
(a) Types of interested party contributions and eligibility requirements
Freddie Mac will purchase Mortgages that include interested party contributions under the terms of the Purchase Documents and this section.
Interested parties include, but are not limited to:

- Builder
- Developer
- Seller of the property
- Real estate agent

Based on "value," as defined in [Section 4203.1](#), the maximum permitted financing concessions are as follows:

Occupancy	LTV/TLTV ratios >90%	LTV/TLTV ratios > 75% and ≤ 90%	LTV/TLTV ratios ≤ 75%
Primary Residences and second homes	3%	6%	9%
Investment Properties	2%	2%	2%

The amount of any financing concessions in excess of the limitations set forth above will be considered a sales concession.

Funds paid by the property seller that are fees or costs customarily paid by the property seller according to local convention are not subject to the maximum financing concession limitations above.

*Freddie determines value by using the lesser of the sales price or appraised value

Capital

Purchase Price (or refinance of all debt to be paid off)

- Earnest Money Deposit (only if verified)

- Other Financing (if applicable)

- Loan Amount Applied for

+ Balance Owed on 30 day accounts “O”

+ Closing Costs

+ Prepaids and escrows

**+ Judgments, collections and debt to be brought current,
paid down or paid off prior to/or at closing.**

+ Required Reserves

= Total Required Funds

Capital

Assets to Close

- Cash to close plus any reserves?
- Reserves
 - Loan Product Advisor/DU
 - Verify funds required
 - Best practice: only enter needed funds
 - Match assets on 1003 with DU/Loan Product Advisor and 1008; Verify and submit to underwriter only what is needed.
- Manual calculation
 - Additional reserves need to be calculated when:
 - Borrower is selling a home and needs cash to complete that transaction
 - Loan product Advisor loans when discount points are being paid by anyone other than borrower
- Other funds necessary for transaction (manual calculation??)
 - Debts paid at close (check guidelines)
 - 30-day accounts, if applicable
 - Credit card financing, if applicable (funds to payoff or include in DTI)
 - Collections and charge-off
 - Multi family owner occupied, second homes and investment transactions - see guidelines
 - Judgements or garnishments

Capital

Large Deposits Fannie Mae

- A large deposit is any deposit that is 50% or more of the total qualifying income being used to qualify
 - Source any account opened in most recent 90 days if using VODs
 - Asset statements look for one or two month seasoning depending on recommendation
 - Investors often are more conservative so check guidelines

Transaction Type	Evaluation Requirements
Refinance transactions	Documentation or explanation for large deposits is not required; however, the lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered.
Purchase transactions	<ul style="list-style-type: none">• If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the lender must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include:

Fannie Mae Single Family Selling Guide

§ B3-4.2-02, Depository Accounts (05/27/2014)

	<p>large deposit is any deposit that is 50% or more of the total qualifying income being used to qualify.</p> <p>The unseasoned \$500 is 12.5% of the borrower's \$4,000 monthly income, falling short of the 50% definition of a large deposit. Therefore, it is not considered a large deposit and the entire \$20,000 balance in the ABC Bank account can be used for underwriting purposes.</p> <ul style="list-style-type: none">• Scenario 2: Using the same borrower example, a deposit of \$5,000 is identified, but only \$500 is documented as coming from the borrower's federal income tax refund, leaving \$2,500 unseasoned. <p>In this instance, the unseasoned \$2,500 is 63% of the borrower's \$4,000 monthly income, which does meet the definition of a large deposit. Therefore, the unseasoned \$2,500 must be subtracted from the account balance of \$20,000 and only the remaining \$17,500 may be used for underwriting purposes.</p>
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Deposits Which May Indicate Borrowed Funds Must Be Investigated.

Capital

Large Deposits Freddie Mac

- A large deposit is any deposit that is 50% or more of the total qualifying income being used to qualify
 - Source any account opened in most recent 90 days if using VODs

Topic	Documentation Requirements
Required funds (Guide Section 5103.1 and Guide Section 5501.1 , 5501.3)	<p>All funds used to qualify the borrower for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves) must come from eligible sources described in Guide Section 5501.3.</p> <ul style="list-style-type: none">▪ For purchases, document the borrower has sufficient funds verified and from eligible sources to qualify for the mortgage transaction.▪ For refinances, verification of funds is required.▪ For non-occupant co-borrower transactions, funds may come from the occupant and/or non-occupant borrower.▪ For mortgages secured by second homes, see Guide Section 4201.15(b). <p>Asset documentation must meet the requirements of Guide Sections 5501.3, 5102.3 and 5102.4, as applicable, and be maintained in the mortgage file. In addition:</p> <ul style="list-style-type: none">▪ For purchase transactions, document the source of funds for any large deposit when the

Freddie Mac Seller/Service Guide

§ 5103.1 and 5501 Required funds

	<ul style="list-style-type: none">– For Loan Product Advisor mortgages, enter the reduced amount of the asset into Loan Product Advisor.▪ When a single deposit consists of both verified and unverified funds, use just the unverified amount when determining whether the deposit is a large deposit.▪ When the source of funds can clearly be identified (e.g., direct payroll deposits or tax refund), additional documentation is not required.▪ If an account was opened within 90 days of a direct verification (i.e., VOD) and/or reflects a current balance significantly greater than the average balance, document the source of funds.▪ You must consider any liabilities resulting from all borrowed funds.
--	--

Deposits Which May Indicate Borrowed Funds Must Be Investigated.

Capital

Earnest Money

- Documentation
 - From eligible source (account listed on 1003?)
 - Correct documentation per guidelines – Is it a gift?
- Make sure funds are not counted twice
 - Back out of bank account balance if necessary

Capital

Borrower's Own Funds

– Fannie Mae

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

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence Second home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
Greater than 80%	One-unit principal residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	Two- to four-unit principal residence Second home	The borrower must make a 5% minimum borrower contribution from his or her own funds. ¹ After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves. See B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements , for HomeReady mortgage minimum borrower contribution and down payment requirements.

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

Capital

Borrower's Own Funds

– Freddie Mac

- No requirement for >80% LTV loans where:
 - Primary residence and
 - Gift or gift of equity received from eligible donor used as source of funds or
 - Employer Assisted Homeownership (EAH) Benefit is used as source of funds
- Some >80% LTV loans secured by manufactured loans no longer require borrower's own funds in transaction

– Genworth follows the GSE guidelines on borrower's own funds

(b) Special requirements for Borrower personal funds

(i) Minimum Borrower contribution

For a purchase transaction Mortgage, the Borrower must make a minimum contribution from Borrower personal funds when specifically required in the Guide, as summarized in the chart below.

Minimum contribution from Borrower personal funds			
Mortgage type	Guide section number	Mortgages with LTV/TLTV/HTLTV ratios ≤ 80%	Mortgages with LTV/TLTV/HTLTV ratios > 80%
Mortgage secured by a 1- and 2-unit Primary Residence	N/A	None	
Mortgage secured by a 3- and 4-unit Primary Residence	N/A	None	N/A
Mortgage secured by a second home	5501.3(c)	None	5% of value, when gift funds or grants are used for the transaction
Mortgage secured by an Investment Property	4201.16	All funds used for the transaction must be Borrower personal funds	
Mortgages with shared equity plans	4204.5	5% of value (must be Owner-Occupant's personal funds)	

See Section 4501.10 for requirements for minimum contribution from Borrower personal funds for Home Possible® Mortgages.

Capital- Gift Funds

Gift Funds

- Enter into AUS correctly
- Must come from acceptable source
- A gift can be provided by:
 - A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
 - A fiancé, fiancée, or domestic partner
- Document correctly
- *Verify donor availability
 - Funds transfer per investor guidelines
 - Fannie Mae prior to, or at closing
 - Freddie Mac prior to closing
- Other restrictions
 - Investment properties, gifts are **not** allowed

**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.*

Assets and Liabilities

***New**

*** 2a. Assets – Bank Accounts, Retirement, and Other Accounts You Have**

Section 2: Financial Information — Assets and Liabilities. This section asks about things you own that are worth money and that you want considered to qualify for this loan. It then asks about your liabilities (or debts) that you pay each month, such as credit cards, alimony, or other expenses.

Include all accounts below. Under Account Type, choose from the account types listed here:

• Checking	• Certificate of Deposit	• Stock Options	• Bridge Loan Proceeds	• Trust Account
• Savings	• Mutual Fund	• Bonds	• Individual Development Account	• Cash Value of Life Insurance (used for the transaction)
• Money Market	• Stocks	• Retirement (e.g., 401k, IRA)		

Account Type – use list above	Financial Institution	Account Number	Cash or Market Value
<input type="text"/>			\$
<input type="text"/>			\$
<input type="text"/>			\$
<input type="text"/>			\$
<input type="text"/>			\$
Provide TOTAL Amount Here			\$

List Assets

- Breakdown by type of asset
- Ask applicant which account or accounts or “source” of funds will be used for the transaction
- Collect two months assets statement
- Know what is considered a large deposit
- Explain any change source of funds must be communicated to you (i.e. borrower was to get a gift but now liquidating their 401k)
- Does borrower have access to retirement accounts without restriction?
- Proof of liquidation?

Do not enter gift funds in Section 2. Gifts are entered in Section 4.

Assets & Liabilities

***New**

Do not enter gift funds in Section 2. Gifts are entered in Section 4.

4d. Gifts or Grants You Have Been Given or Will Receive for this Loan		<input type="checkbox"/> Does not apply
Include all gifts and grants below. Under Source, choose from the sources listed here:		
<div>• Relative • Employer • Community Nonprofit • State Agency • Other</div> <div>• Unmarried Partner • Religious Nonprofit • Federal Agency • Local Agency</div>		
Asset Type (Cash Gift, Gift of Equity, Grant)	Source – use list above	Cash or Market Value
<div><div></div><div><input type="radio"/> Deposited <input type="radio"/> Not Deposited</div></div>	<div><div></div><div><input type="radio"/> Deposited <input type="radio"/> Not Deposited</div></div>	<div><div></div><div>\$</div></div>
<div><div></div><div><input type="radio"/> Deposited <input type="radio"/> Not Deposited</div></div>	<div><div></div><div><input type="radio"/> Deposited <input type="radio"/> Not Deposited</div></div>	<div><div></div><div>\$</div></div>

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

- specify the dollar amount of the gift;
- specify the date the funds were transferred;
- include the donor’s statement that no repayment is expected; and
- indicate the donor’s name, address, and relationship to the borrower

Documentation of donor ability/transfer and proof of receipt of the gift will be required prior (prior to for Freddie Mac) or at closing.

Capital- Gift Funds

Availability & Transfer of Funds

The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check (Fannie Mae Only)

Fannie Mae Only: When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check with remitter as the donor.

Freddie Mac: Requires the gift to be transferred to the borrower prior to closing, unless it is a gift of equity.

Capital- Gift Funds: Freddie Mac

Topic	Documentation Requirements
Gift funds or a gift of equity (Guide Section 5501.3(c))	<p>Provide a gift letter signed by the donor. Information provided in the gift letter must:</p> <ul style="list-style-type: none"> State the donor's name and the funds are given by a related person Include the donor's mailing address and telephone number State the amount of the gift funds or gift of equity Establish the gift funds or gift of equity are a gift that does not have to be repaid <p>Gift funds: If the verifications provided in the mortgage file do not show evidence that the gift funds have been deposited in the borrower's account, the borrower must provide evidence of the transfer of funds from the donor to the borrower.</p> <p>Gift of equity: A gift of equity must be reflected on the Settlement/Closing Disclosure Statement.</p> <p>Note:</p> <ul style="list-style-type: none"> Investment Property Mortgages: Gift funds or gift of equity are not an eligible source of funds Second Home Mortgages with LTV/TLTV/HTLTV ratios greater than 80%: Minimum contribution from borrower personal funds must be 5% of value when gift funds or grants are used for the transaction.
Gift funds received as a wedding gift (Guide Section 5501.3(c))	<p>Provide the following:</p> <ul style="list-style-type: none"> A copy of the marriage license or certificate A verification of the gift funds in the borrower's depository account <p>The gift funds must be on deposit in the borrower's depository account within 60 days of the date of the marriage license or certificate</p>
A gift or grant from an agency (Guide Section 5501.3(c))	<p>Provide documentation supporting a gift or grant from an agency. Examples of acceptable documentation include copies of grant program materials, award letters or terms and conditions provided to the borrower. The documentation must:</p> <ul style="list-style-type: none"> Establish that the funds were provided by an Agency Establish that the organization has an established gift or grant program Establish that the funds are a gift or grant that does not have to be repaid Provide evidence that the funds were received by the borrower or by the Seller on the borrower's behalf Identify the donor's mailing address

Compliance

Completeness

Compliance

Ensure Completeness of the Loan Application and Loan Package

- Two year history
 - Employment
 - Residence
- Occupancy
 - Make sense
 - Consistent throughout loan file
- Final 1003 URLA Signed
- Buyer/Seller CD in closed package
- AUS updated with final data
 - Within tolerances, if permitted
- Proofread
 - All information provided
 - All documents in file

Compliance

No Cash-Out, Limited Cash-Out. Rate & Term Refinance

- Fannie Mae Limited cash-out refinance transactions must meet the following requirements:

The transaction is being used to pay off an existing first mortgage loan (including an existing HELOC in first-lien position) by obtaining a new first mortgage loan secured by the same property; or for single-closing construction-to-permanent loans to pay for construction costs to build the home, which may include paying off an existing lot lien.

Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy-related improvements. See [B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties](#), for additional information.

The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

<https://www.fanniemae.com/content/guide/selling/b/index.html>

Compliance

No Cash-Out, Limited Cash-Out. Rate & Term Refinance

– Fannie Mae Limited cash-out refinance transactions. The following are acceptable in conjunction with a limited cash-out refinance transaction:

- modifying the interest rate and/or term for existing mortgages;
- paying off the unpaid principal balance of the existing first mortgage (including prepayment penalties);
- for single-closing construction-to-permanent transactions, paying for construction costs to build a home, which may include paying off an existing lot lien;
- financing the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation. (For example, if a particular state law does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible as a limited cash-out refinance without an escrow account.) If an escrow account is not being established, see [B2-1.2-03, Cash-Out Refinance Transactions](#);
- receiving cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or \$2,000;
- buying out a co-owner pursuant to an agreement;
- paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property. The lender must document that the entire amount of the subordinate financing was used to acquire the property; or
- paying off the unpaid principal balance of PACE loans and other debt used for energy-related improvements, described above.

<https://www.fanniemae.com/content/guide/selling/b/index.html>

Compliance

No Cash-Out, Limited Cash-Out. Rate & Term Refinance

. Freddie Mac- A refinance Mortgage is either:

1. A Mortgage the proceeds of which are used to pay off an existing Mortgage or Mortgages secured by the Mortgaged Premises with the cancellation of the existing promissory note(s) and the execution of a new promissory note and a new Security Instrument, or
2. A Mortgage secured by Mortgaged Premises previously owned free and clear by the Borrower

A Mortgage the proceeds of which are used to pay off an Interim Construction Financing must meet requirements of Chapter 4602 for Construction Conversion and Renovation Mortgages, including, but not limited to, how the transaction type (purchase or refinance) is determined.

Freddie Mac offers three types of refinance Mortgages:

A "no cash-out" refinance

A cash-out refinance

A special purpose cash-out refinance

Within these types, Freddie Mac has special requirements for refinancing certain Mortgages currently owned by Freddie Mac.

Compliance

No Cash-Out, Limited Cash-Out. Rate & Term Refinance

- Freddie Mac No Cash-Out

Cash back requirements for “no cash-out” refinance Mortgages

Effective for Mortgages with Settlement Dates on and after October 27, 2018; but Sellers may implement immediately

Previously, for a “no cash-out” refinance Mortgage, proceeds could be used to disburse cash to the Borrower (or other payee) not to exceed 2% of the new refinance Mortgage, or \$2,000, whichever was less.

→ To provide flexibility in the disbursement of cash back to the Borrower, we are revising our requirements to permit cash back up to the greater of 1% of the Mortgage amount or \$2,000.

Guide impacts: Sections 4301.4, 4602.5 and 5703.4

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Avoiding Common Underwriting Errors

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