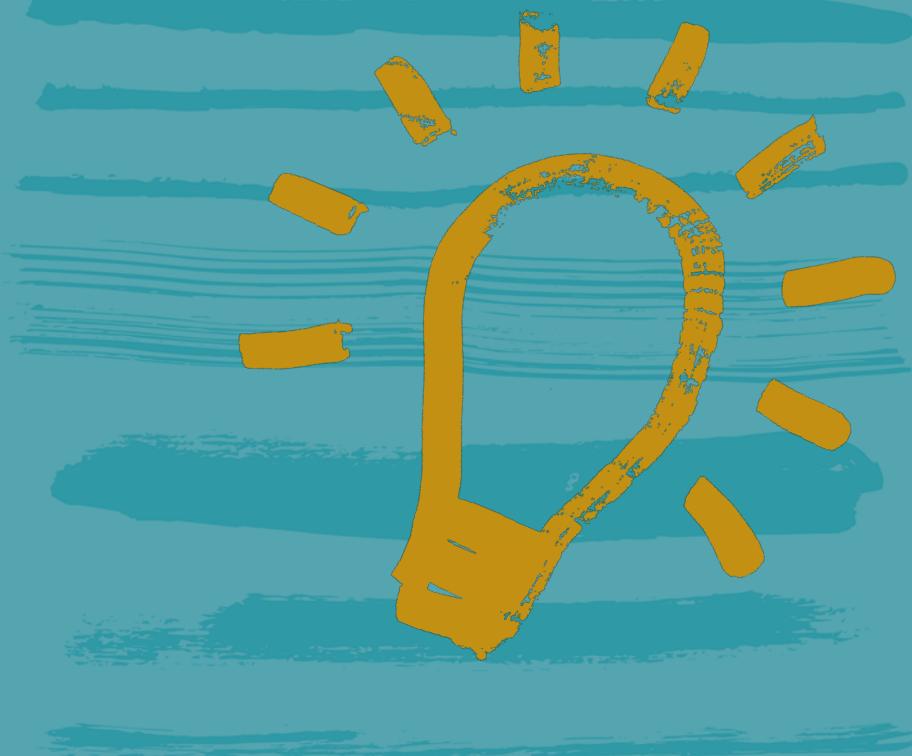


Avoid Common Underwriting Errors: Suggested Best Practices

January 2020



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



Fannie Mae®

Search forms, documents, site content, etc...



Single-Family ▾

Originating & Underwriting

Pricing & Execution

Delivering

Servicing

Training

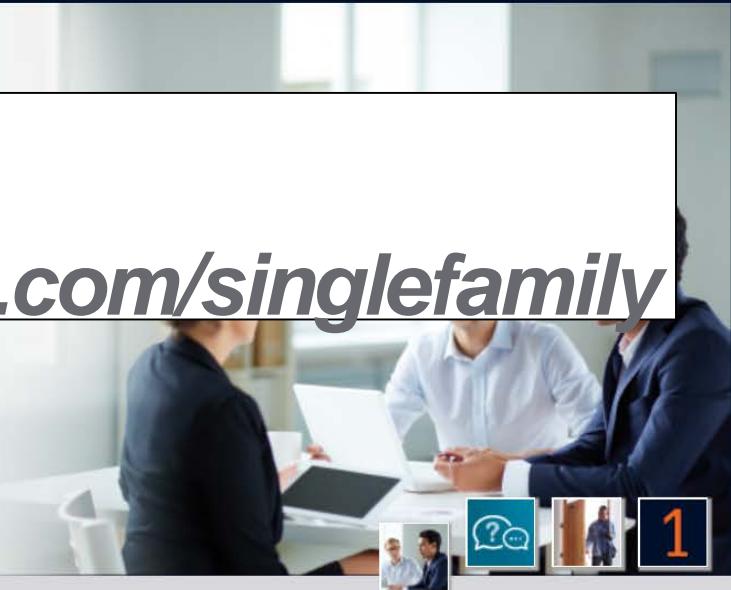
Technology

For Information:

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

sentiment survey

Learn more 



Fannie Mae Job Aids/FAQs

Single-Family ▾ Originating & Underwriting Pricing & Execution Delivering Servicing Training Technology

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 on-demand eLearning courses, online presentations, application demos, job aids, and FAQs

Find the Training Resources You Need



[Originating & Underwriting](#)

[Pricing & Execution](#)

[Delivering](#)

[Servicing](#)

[Live Web Seminars](#)

General Underwriting new

Mortgage Products

Loan Quality

Technology Solutions

Training focusing on underwriting the borrower and the property.

Job Aids / FAQs

[At a Glance | Selling Guide Updates Related to the Tax Cuts and Jobs Act](#)

[FAQs | Appraisal and Property Related Frequently Asked Questions](#)

[FAQs | Appraiser Independence Requirements](#)

[FAQs | Project Insurance Requirements](#)

Online Courses / Microlearning

[Rural Appraisal Challenges](#)

[Assessing Income from Self-Employment](#)

[Condo Project Standards Training Page](#)

[Condo - Project Review Guidelines for Condos](#)

[Day 1 Certainty - Implementing Day 1 Certainty](#)

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

Top Trending

Frequently Asked Questions

Get answers to frequently asked questions.



[BACK TO ORIGINATING & UNDERWRITING >](#) November 2019

These are the top trending underwriting and eligibility questions customers have asked us. Visit Ask Poli™ to see trending content, find more answers, filter content by topic, and view recently added questions.

Asset Assessment > Verification of Non-Depository Assets

- How is donor availability and transfer of gift funds verified? +
- What are the documentation requirements for gift funds? +
- When can gift funds be used? +
- Who are acceptable gift donors? +

Income Assessment > Employment Income

- How is variable income calculated? +
- What is required when a borrower is employed by family? +

Income Assessment > Self-Employment

- Is a profit and loss statement required to document self-employment income? +
- What adjustments are made in the cash flow analysis for Schedule C? +
- What adjustments are made to the business cash flow analysis for a partnership, LLC, or corporation? +
- What is the liquidity test for business income from a partnership, LLC, or S corporation? +

<https://www.fanniemae.com/content/faq/trending-questions-lenders-faqs>



Working With Us

From origination and underwriting through selling and servicing, Freddie Mac offers everything you need to run an effective, profitable and growing business.



Tools and Learning

Our advanced technology solutions help streamline processes and improve performance, while our learning programs provide the guidance you need to succeed.



News and Insights

With more than 80 million mortgages underwritten, Freddie Mac has unequalled visibility into the housing market – and we share our observations and analysis.



About Single-Family

Single-Family gives businesses what they need to help us fulfill the Freddie Mac mission: To keep mortgage funds flowing and promote responsible, sustainable homeownership.

<https://sf.freddiemac.com/>

Tools and Learning



The Seller/Servicer Guide

The Single-Family Seller/Servicer Guide (Guide) contains Freddie Mac's selling and servicing requirements. We periodically publish updates to these requirements in the form of Guide Bulletins and Industry Letters.



Loan AdvisorSM

Loan AdvisorSM's tools enable you to work faster, automate processes, uncover hidden opportunities and work through every stage of the lending process with greater confidence. You get more flexibility, higher production and better risk analysis.



Servicing Gateway

Access the Freddie Mac servicing tools you use frequently from Servicing Gateway. Learn about the 14 different technology solutions and how they can help you service loans effectively.



Freddie Mac Learning

Mortgages are complex financial products that exist in a dynamic market environment. Freddie Mac's Learning Platform is designed to provide the guidance you need to succeed, whether you're new to the industry or a 30-year veteran.

<https://sf.freddiemac.com/tools-learning/tools-learning>

Tips, training and education.

Training resources designed to provide the guidance you need to succeed.

New Users & Seller/Servicers

AllRegs® User Guide PDF

AllRegs® user guide to use with the Freddie Mac Single-Family Seller/Servicer Guide.

Loan Advisor Overview ↗

This tutorial provides a quick introduction to give you a better understanding of all the Loan Advisor tools that are available. For best viewing results, use a browser other than Internet

Loan Selling Advisor Overview Tutorial ↗

This tutorial introduces new Loan Selling Advisor users to the basics, such as logging in and navigating, user roles, and resources.

More Learning Courses ↗

View our full library of training materials from webinars to tutorials. Find everything you need to help you get the job done at Freddie Mac Learning.

<https://sf.freddiemac.com/tools-learning/freddie-mac-learning/overview>

<https://sf.freddiemac.com/tools-learning/tools-learning#popular-in-learning>

Tips, training and education.

Training resources designed to provide the guidance you need to succeed.

Origination & Underwriting

Grow Your Business with Home Possible®

This tutorial shows how we can help your low- to moderate-income borrowers with credit flexibilities, low down payments and options for sources of funds.

Instructions for the Uniform Residential Loan Application (Form 65) PDF

Follow these instructions to complete the Uniform Residential Loan Application.

New Underwriters

Recommended training for all new underwriters in the mortgage lending industry.

Home Possible® Income Eligibility

Learn about income eligibility requirements and income limits for Home Possible mortgages.

Training for Loan Processors

Visit Freddie Mac Learn to view all of our origination training for loan processors.

Community Land Trust Mortgage: Quick Reference

Learn how this offering can expand your product offerings and benefit both the borrower and the community.

AIM for Self-Employed Job Aid

Learn about the automated assessment of self-employed income with Loan Product Advisor® using tax return data.

Rental Income Requirements Webinar

Learn about the expansions to our requirements, added specificity for analysis of rental income, and housing industry trends in the rental market.

<https://sf.freddiemac.com/tools-learning/freddie-mac-learning/overview>

<https://sf.freddiemac.com/tools-learning/tools-learning#popular-in-learning>



Mortgage Products Training Resources

This document lists the various resources available to you on [Freddie Mac Learning](#) relating to mortgage products. Each resource is marked with one of the following icons to identify the type of help provided:



Live Webinar



Tutorial



Reference Tool

Mortgage Products

[Discover the Possibilities with Home Possible® Mortgages](#). Information about Freddie Mac's Home Possible Mortgages, including how to meet the needs of low-to-moderate-income borrowers, as well as first-time homebuyers, with these products.



[Condominium Project Eligibility Requirements](#). A high-level overview of Freddie Mac's requirements for reviewing condominium projects and general project eligibility.



[Construction Conversion and Renovation Mortgages](#). Information on how to structure the transaction, how to calculate the value ratio's and the requirements involved when delivering the permanent mortgage that replaces the interim construction financing.



[Construction Conversion and Renovation Mortgages](#). An eligibility chart to help process, underwrite, and deliver Construction Conversion and Renovation Mortgages to Freddie Mac.



[Freddie Mac Condominium Unit Mortgages](#). A summary of general condominium project eligibility requirements, ineligible properties, review requirements by condominium project type, and more.



[Freddie Mac Enhanced Relief Refinance](#). This fact sheet provides information for refinance opportunities to borrowers with existing Freddie Mac mortgages.



[Home Possible Income Eligibility](#). Information on income and eligibility requirements to establish that Home Possible income limits are not exceeded.



[Home Possible Mortgages – Your Affordable Lending Solution](#). An introduction to Freddie Mac's Home Possible Mortgages, which allow low down-payment options, flexible sources of funds, and flexible credit terms.



[Manufactured Homes Underwriting Reminders](#). A quick reference to help determine if a mortgage secured by a manufactured home is eligible for sale to Freddie Mac.



[Mortgages Secured by Manufactured Homes](#). A look at the requirements for selling manufactured home mortgages to Freddie Mac, including eligible transactions and mortgages available for manufactured homes.



This document is not a replacement or substitute for the information found in the *Freddie Mac Single-Family Seller/Servicer Guide* or terms of your Master Agreement or other Pricing Identifier Terms.
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November 2019

[Freddie Mac Learning](#)

https://sf.freddiemac.com/content/_assets/resources/pdf/fact-sheet/mortgage_products_resources.pdf



Loan Product Advisor® Training Resources

Access the following resources by clicking their titles below. The following icons identify the type of help provided:

 Live Webinar  Tutorial  Reference Tool  User Guide

Tools

Asset and Income Modeler (AIM)

[Getting Started with AIM](#). Introduction to a Loan Product Advisor capability for capacity rep and warranty relief, Asset and Income Modeler, and how to get started. 

[AIM for Assets reference](#). Assists you with using our automated asset assessment offering. 

[AIM for Assets webinar](#). Learn more about how you can automate a manual process to more efficiently assess borrower assets and get the borrower qualified faster. 

[AIM for Income reference](#). Assists you with using our automated income assessment (employer data) offering. 

[AIM for Income webinar](#). Learn more about how you can automate a manual process to more efficiently assess borrower income and get them qualified faster. 

[AIM for Self-Employed reference](#). Assists you with using our automated assessment offering using Tax Return data for the self-employed. 

[AIM for Self-Employed webinar](#). Learn more about how you can automate a manual process to more efficiently assess borrower's income from self-employment. 

Collateral

[Automated Collateral Evaluation clip](#). An overview of Loan Product Advisor's automated collateral evaluation (ACE). 

[Appraisals and Appraisal Waivers: Optimizing Your Process with Collateral Representation & Warranty Relief](#). Freddie Mac's Collateral Representation and Warranty Relief can help you reduce time and increase confidence in your evaluation of the collateral. 

Overview

[Loan Product Advisor – How it Works](#). Basic information to begin using Loan Product Advisor. 

[Loan Product Advisor Documentation Matrix](#). Specifies the documentation requirements for borrowers, including helpful underwriting reminders. 

[Entering and Submitting Data to Loan Product Advisor](#). A look at Loan Product Advisor's services, what is needed to submit loans, and common data entry questions. 

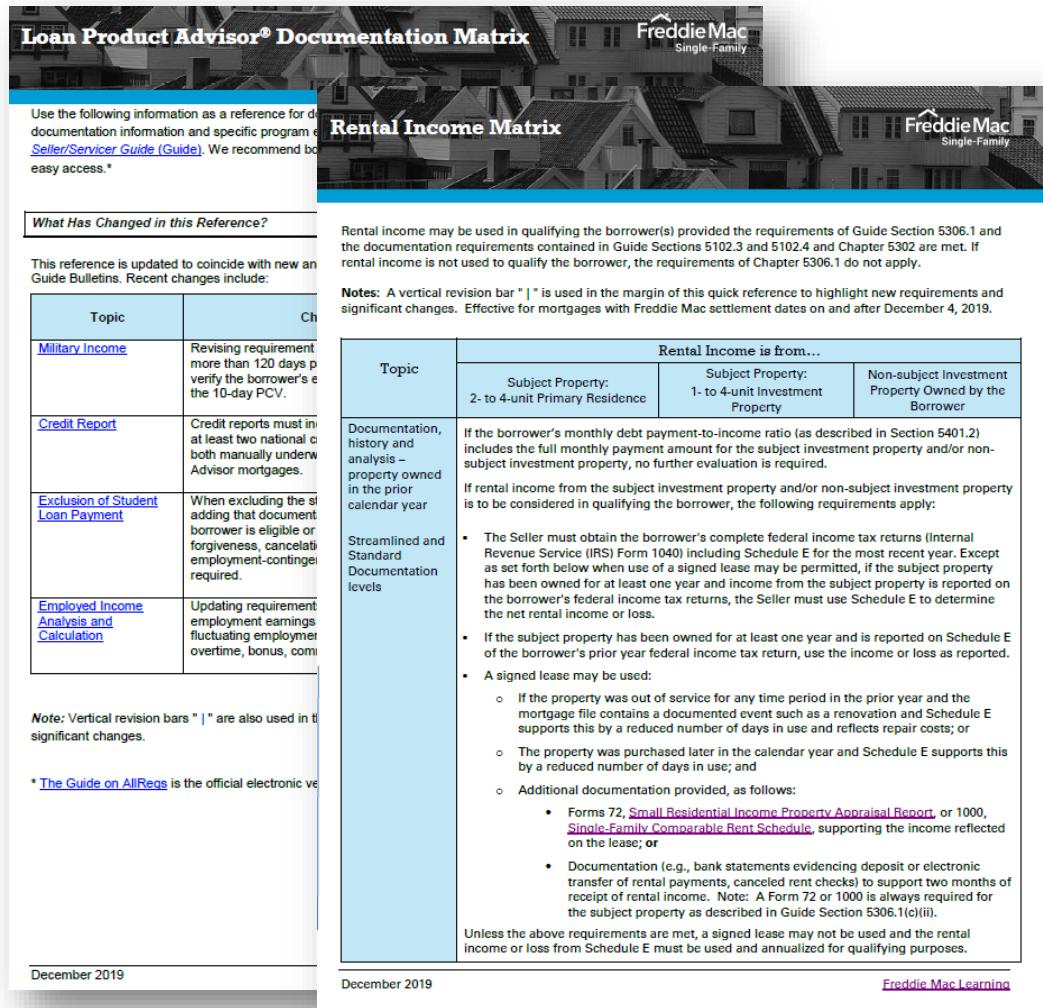
[Understanding the Loan Product Advisor Feedback Certificate](#). Information about some of the features of Loan Product Advisor's redesigned Feedback Certificate. 

September 2019 [Freddie Mac Learning](#)

https://sf.freddiemac.com/content/_assets/resources/pdf/fact-sheet/lpa_resources.pdf

Documentation and Rental Income Matrix

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



The image shows two side-by-side screenshots of Freddie Mac's documentation resources. The left screenshot is the 'Loan Product Advisor® Documentation Matrix' and the right is the 'Rental Income Matrix'. Both pages feature a header with the Freddie Mac Single-Family logo and a background image of houses. The Documentation Matrix page includes a 'Seller/Servicer Guide (Guide)' link and a note about vertical revision bars indicating changes. The Rental Income Matrix page includes a note that rental income is not used to qualify the borrower if Chapter 5306.1 does not apply. Both pages have a 'December 2019' footer.

Loan Product Advisor® Documentation Matrix

Use the following information as a reference for documentation information and specific program requirements. [Seller/Servicer Guide \(Guide\)](#). We recommend bookmarking this page for easy access.*

What Has Changed in this Reference?

This reference is updated to coincide with new and revised [Guide Bulletins](#). Recent changes include:

Topic	Change
Military Income	Revising requirement for military members to verify the borrower's employment using the 10-day PCV.
Credit Report	Credit reports must include at least two national credit bureaus, both manually and electronically.
Exclusion of Student Loan Payment	When excluding the student loan payment, the borrower is eligible for forgiveness, cancellation, or employment-contingent required.
Employed Income Analysis and Calculation	Updating requirement for fluctuating employment, overtime, bonus, commissions, and other factors.

Note: Vertical revision bars " | " are also used in this document to indicate significant changes.

* [The Guide on AllRegs](#) is the official electronic version of the Guide.

Rental Income Matrix

Rental income may be used in qualifying the borrower(s) provided the requirements of Guide Section 5306.1 and the documentation requirements contained in Guide Sections 5102.3 and 5102.4 and Chapter 5302 are met. If rental income is not used to qualify the borrower, the requirements of Chapter 5306.1 do not apply.

Notes: A vertical revision bar " | " is used in the margin of this quick reference to highlight new requirements and significant changes. Effective for mortgages with Freddie Mac settlement dates on and after December 4, 2019.

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 – property owned in the prior calendar year	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.		
Streamlined and Standard Documentation levels	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:		
	<ul style="list-style-type: none">The Seller must obtain the borrower's complete federal income tax returns (Internal Revenue Service (IRS) Form 1040) including 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 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 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 and Schedule E supports this by a reduced number of days in use and reflects repair costs; orThe property was purchased later in the calendar year and Schedule E supports this by a reduced number of days in use; andAdditional documentation provided, as follows:<ul style="list-style-type: none">Forms 72, Small Residential Income Property Appraisal Report, or 1000, Single-Family Comparable Rent Schedule, supporting the income reflected on the lease; orDocumentation (e.g., bank statements evidencing deposit or electronic transfer of rental payments, canceled rent checks) to support two months of receipt of rental income. Note: A Form 72 or 1000 is always required for the subject property as described in Guide Section 5306.1(c)(ii).		

Unless the above requirements are met, a signed lease may not be used and the rental income or loss from Schedule E must be used and annualized for qualifying purposes.

December 2019

December 2019

[Freddie Mac Learning](#)

https://sf.freddiemac.com/content/_assets/resources/pdf/update/docmatrix.pdf

Genworth Underwriting Guidelines



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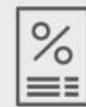


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 mi.genworth.com

Underwriting Guidelines

Genworth Mortgage Insurance underwritten by:
Genworth Mortgage Insurance Corporation

August 5, 2019



12659881.0819

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 August 5, 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		
	95%	Agency Base Conforming		
	85%	FHFA High Cost		
2 units	95%	FHFA High Cost		
3 units	95%	FHFA High Cost		
4 units	95%	FHFA High Cost		
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	620
				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: <ul style="list-style-type: none"> Approve/Ineligible for HomePath® Property See Simply Underwrite sections 4.1 and 6.1 in the Underwriting Guidelines for complete details HomeReady® and Home Possible® are eligible for Simply Underwrite. For more information, see section 4.2 in our Underwriting Guidelines.
Exclusions from Simply Underwrite	<ul style="list-style-type: none"> Fannie Mae High LTV Refinance Option and Freddie Mac Enhanced Relief Refinance Mortgage™ 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	<ul style="list-style-type: none"> 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 Underwriting Guidelines 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

Desktop Underwriter®, DU®, HomePath® Properties, and HomeReady® are registered trademarks of Fannie Mae. Loan Product Advisor™, and Freddie Mac Enhanced Relief Refinance™ are service marks of Freddie Mac. Home Possible® is a registered trademark of Freddie Mac.

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

0600304.0830

Genworth MI Top Decision Errors



3rd 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 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.

Page one of three

Assets – Analyzing the Borrower's Assets														
Decision Error	Underwriting Guideline	Corrective Action												
Excessive Seller Contributions	Section 5.30 Builder/Seller Contributions Follow GSE standard guidelines for treatment of builder/seller contributions, subject to these maximum contributions amounts:	Underwriter must ensure that AUS, Genworth and Investor guidelines have been met.												
<table border="1"> <thead> <tr> <th>Occupancy</th> <th>LTV</th> <th>Max Contribution</th> </tr> </thead> <tbody> <tr> <td>Primary Residence</td> <td>90.01 – 97%</td> <td>3%</td> </tr> <tr> <td>Second Homes</td> <td>90%</td> <td>6%</td> </tr> <tr> <td>Investment Property</td> <td>85%</td> <td>2%</td> </tr> </tbody> </table> <p>Loans with payment abatements are ineligible. Payment abatements are funds provided by an interested party used to offset or fully fund a borrower's monthly payments.</p> <p><i>Note: The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.</i></p> <p>For HomePath® properties, we allow up to 6% Interested Party Contribution (IPC) for primary residence transactions with LTV/CLTV > 90%. All other requirements related to interested party contributions continue to apply. As DU will not be able to identify the subject property as a HomePath property, it is the lender's responsibility to verify and ensure that the property is a HomePath property and document the Loan File accordingly.</p>			Occupancy	LTV	Max Contribution	Primary Residence	90.01 – 97%	3%	Second Homes	90%	6%	Investment Property	85%	2%
Occupancy	LTV	Max Contribution												
Primary Residence	90.01 – 97%	3%												
Second Homes	90%	6%												
Investment Property	85%	2%												
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.	Underwriter must ensure that AUS, Genworth and Investor documentation requirements have been met.												
<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>														

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

Assets – Analyzing the Borrower's Assets

Decision Error	Underwriting Guideline	Corrective Action
Assets Not Documented as Required by Program or AUS Guidelines	<p>Genworth Section 4.1 Simply Underwrite Eligibility</p> <p>Follow documentation required by DU and Loan Product Advisor. Additional documentation may be warranted to support the underwriting decision.</p>	<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>
Source of Funds not Adequately or Properly Documented for Large Deposits	<p>Genworth Standard Guidelines Section 7.10 Assets and Liabilities</p> <p>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>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>

Assets – Analyzing the Borrower's Assets																
Decision Error	Underwriting Guideline	Corrective Action														
Excessive Seller Contributions	<p>Section 5.30 Builder/Seller Contributions Follow GSE standard guidelines for treatment of builder/seller contributions, subject to these maximum contributions amounts:</p> <table border="1"> <thead> <tr> <th>Occupancy</th> <th>LTV</th> <th>Max Contribution</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Primary Residence</td> <td>90.01 – 97%</td> <td>3%</td> </tr> <tr> <td>90%</td> <td>6%</td> </tr> <tr> <td>Second Homes</td> <td>90%</td> <td>6%</td> </tr> <tr> <td>Investment Property</td> <td>85%</td> <td>2%</td> </tr> </tbody> </table> <p>Loans with payment abatements are ineligible. Payment abatements are funds provided by an interested party used to offset or fully fund a borrower's monthly payments.</p> <p><i>Note: The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.</i></p> <p>For HomePath® properties, we allow up to 6% Interested Party Contribution (IPC) for primary residence transactions with LTV/CLTV > 90%. All other requirements related to interested party contributions continue to apply. As DU will not be able to identify the subject property as a HomePath property, it is the lender's responsibility to verify and ensure that the property is a HomePath property and document the Loan File accordingly.</p>	Occupancy	LTV	Max Contribution	Primary Residence	90.01 – 97%	3%	90%	6%	Second Homes	90%	6%	Investment Property	85%	2%	Underwriter must ensure that AUS, Genworth and Investor guidelines have been met.
Occupancy	LTV	Max Contribution														
Primary Residence	90.01 – 97%	3%														
	90%	6%														
Second Homes	90%	6%														
Investment Property	85%	2%														

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>
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. 	<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>

Genworth MI Decision Tips Updated Every Quarter

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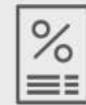


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Underwriting Tips



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 cleared2. 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 \$12904	<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 account2. 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 EMD3. 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 check2. 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)(iii) – 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 funds2. Verify the donor's availability of funds and their transfer of funds for the EMD3. 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 letter2. 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 \$10,0002. Provide evidence the large deposit borrower received, came from the gift donor & donor's availability of funds3. 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.

Browse by Topic



Browse by Role

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

Feature	Calculator	Description	Version
	Fannie Mae Form 1084 Calculator (2017-2018)	Calculate and analyze cash flow 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 Calculations - Schedule E	UPDATED
	Schedule Analysis Method (SAM) Calculator (2017-2018)	Calculate qualifying income from tax 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 (Principal Residence, 2- to 4-unit Property).	UPDATED
	Fannie Mae Rental Guide (Calculator 1038)	Worksheet for calculating qualifying rental income for Fannie Mae Form 1038 (Individual Rental Income from Investment Property).	UPDATED
	Fannie Mae Form 1088 Cheat Sheet (2017-2018)	Use this quick reference guide for Fannie Mae's Comparative Analysis Form (Form 1088).	UPDATED
	Fannie Mae Comparative Analysis Form 1088 (2017-2018)	Calculate increases/decreases in gross income, expenses and taxable income.	UPDATED
	Income Calculation Worksheet	Use this form to calculate income.	UPDATED

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Self-Employed Borrower Tools



Income Calculation Tools and Reference Guides

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

Two Year History is Required on the URLA for All Applicants

1b. Current Employment/Self-Employment and Income		<input type="checkbox"/> Does not apply
Employer or Business Name _____		Phone (____) ____ - _____
Street _____		
City _____		State _____ ZIP _____
Position or Title _____		Check if this statement applies: <input type="checkbox"/> I am employed by a family member, property seller, real estate agent, or other party to the transaction.
Start Date ____ / ____ (mm/yyyy) How long in this line of work? ____ Years ____ Months		
<input type="checkbox"/> Check if you are the Business Owner or Self-Employed		<input type="radio"/> I have an ownership share of less than 25%. Monthly Income (or Loss)
		<input type="radio"/> I have an ownership share of 25% or more. \$ _____
Gross Monthly Income		
Base \$ _____ /month		
Overtime \$ _____ /month		
Bonus \$ _____ /month		
Commission \$ _____ /month		
Military Entitlements \$ _____ /month		
Other \$ _____ /month		
TOTAL \$ _____ /month		

Freddie Mac Documentation Matrix

- Returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence
- New to the workforce, provide documentation supporting the borrower's recent attendance at school or in a training program prior to their current employment
- Who experienced recent employment gaps (e.g., 30 days), although a letter of explanation is not required, the Seller remains responsible for establishing the employment is stable, which may require analysis of recent employment gaps.

Refer to Guide Section 5303.2(a)(i) for complete requirements and guidance.

Borrowers Who Experienced Recent Employment Gaps (e.g. 30 Days), A Letter Of Explanation Is Not Required, But The Seller Remains Responsible For Establishing The Employment Is Stable, Which May Require Analysis Of Recent Employment Gaps

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

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Expiration Date Not Defined	Defined Expiration Date*
<p>Lender does not need to document 3-year continuance</p> <ul style="list-style-type: none">• automobile allowance• base salary• bonus, overtime, commission, or tip income• capital gains income• corporate retirement or pension	<p>Lender must document 3-year continuance</p> <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

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Selling Guide
Published December 4, 2019

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Preface
The Selling Guide is organized into parts that reflect aspects of their business relationship with Fannie Mae. [Find out more about the Selling Guide >](#)

Part A: Doing Business with Fannie Mae
This part describes the requirements a lender must satisfy to become a Fannie Mae-approved seller and servicer of residential home mortgage loans. This part also includes information on an approved lender's contractual obligations, procedures for obtaining technology applications, and requirements for maintaining lender eligibility. It includes the following subparts: Approval Qualification, Lender Contract, Getting Started With Fannie Mae, Maintaining Seller/Servicer Eligibility. [View Part](#)

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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.

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

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Single-Family

Guide Home Seller/Servicer Relationship Selling Servicing

THE SINGLE-FAMILY SELLER/SERVICER GUIDE

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Guide Home > Selling > Series 5000 : Origination and Underwriting > Topic 5300 : Stable Monthly Income and Asset Qualification Sources

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 Requirements for Documentation Used to Verify Employment and Income**

Chapter 5303 **Employed Income**

<https://www.guide.freddiemac.com/app/guide/content/10/100000>

5305.2 < Prev Next >

Specific requirements for other income types

Effective 08/07/2019

Guide Home > Selling > Series 5000 : Origination and Underwriting > Topic 5300 : Stable Monthly Income and Asset Qualification Sources > Chapter 5305 : Other Income

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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**

<https://guide.freddiemac.com/app/guide/section/5301.1>

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

Topic 5300: Stable Monthly Income and Asset Qualification Sources

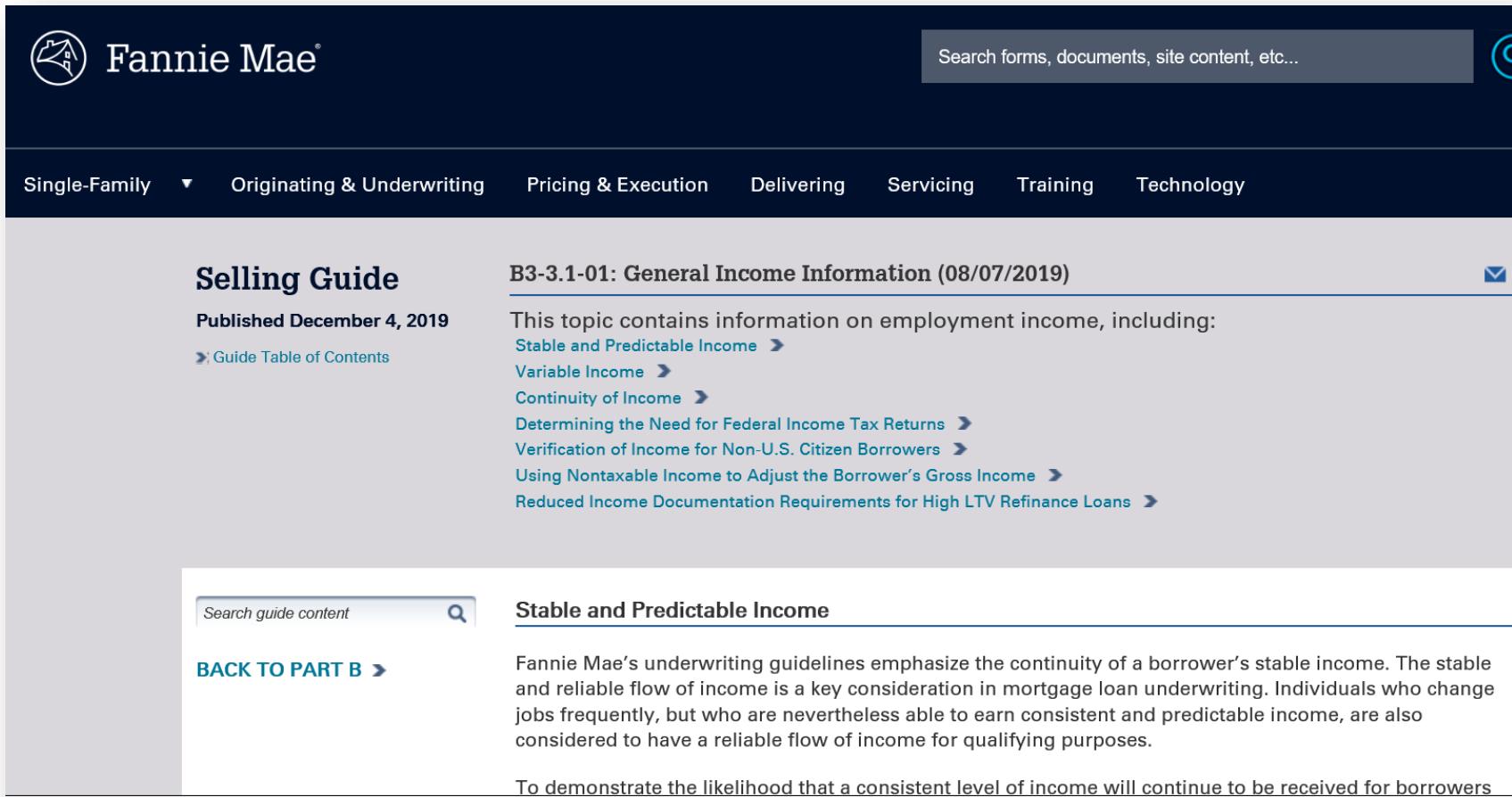
Chapter 5301: General Requirements for All Stable Monthly Income and Asset Qualification Sources

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

Capacity: Fannie Mae Selling Guide



The screenshot shows the Fannie Mae Selling Guide website. At the top, there is a navigation bar with the Fannie Mae logo, a search bar, and a copyright symbol. Below the navigation bar, there are links for Single-Family, Originating & Underwriting, Pricing & Execution, Delivering, Servicing, Training, and Technology. The main content area is titled "Selling Guide" and "Published December 4, 2019". It features a table of contents with several sub-sections under "B3-3.1-01: General Income Information (08/07/2019)". The "Stable and Predictable Income" section is expanded, showing its sub-sections: Variable Income, Continuity of Income, Determining the Need for Federal Income Tax Returns, Verification of Income for Non-U.S. Citizen Borrowers, Using Nontaxable Income to Adjust the Borrower's Gross Income, and Reduced Income Documentation Requirements for High LTV Refinance Loans. At the bottom of the content area, there is a "Search guide content" input field with a magnifying glass icon, a "BACK TO PART B" link, and a "Stable and Predictable Income" section description.

Selling Guide

Published December 4, 2019

[Guide Table of Contents](#)

B3-3.1-01: General Income Information (08/07/2019)

This topic contains information on employment income, including:

[Stable and Predictable Income](#)

[Variable Income](#)

[Continuity of Income](#)

[Determining the Need for Federal Income Tax Returns](#)

[Verification of Income for Non-U.S. Citizen Borrowers](#)

[Using Nontaxable Income to Adjust the Borrower's Gross Income](#)

[Reduced Income Documentation Requirements for High LTV Refinance Loans](#)

Search guide content 

[BACK TO PART B](#)

Stable and Predictable Income

Fannie Mae's underwriting guidelines emphasize the continuity of a borrower's stable income. The stable and reliable flow of income is a key consideration in mortgage loan underwriting. Individuals who change jobs frequently, but who are nevertheless able to earn consistent and predictable income, are also considered to have a reliable flow of income for qualifying purposes.

To demonstrate the likelihood that a consistent level of income will continue to be received for borrowers

<https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html>

Capacity: Fannie Mae Selling Guide

Variable Income

All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received. Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commissions, bonuses, or overtime.

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

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

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

<https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html>

Capacity: Fannie Mae *Selling Guide*

Trends of Income

- Verify trends of income before using to qualify for a mortgage
- Income used must be likely to continue

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

- If the trend in the amount of income is stable or increasing, the income amount should be averaged.
- If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.

<https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html>

Capacity:

**Effective for Mortgages
with Settlement Dates
on or After April 2, 2020
but Seller are
ENCOURAGED to
implement as soon as
possible**

INCOME AND EMPLOYMENT DOCUMENTATION, continued

Topic	Documentation Requirements (Streamlined and Standard Documentation Levels)
Primary and Secondary Employment: Earnings types - requirements and guidance (Guide Section 5303.2(b))	<p>Base non-fluctuating employment earnings For determining stable monthly income, base non-fluctuating employment earnings are considered to be earnings with a pre-determined and agreed upon rate of pay and number of hours worked each pay period.</p> <ul style="list-style-type: none">The pay rate and number of hours worked must be reflected on an ongoing consistent basis for each pay period and be fully supported by the year-to-date income. In addition, if the annual salary is reported on the income verification documentation, that may be considered additional confirmation of base non-fluctuating earnings.Base non-fluctuating earnings may include:<ul style="list-style-type: none">Both exempt (salaried) and non-exempt earnings; however, the pay rate and number of hours worked must not fluctuate between pay periods.Military base (basic) pay. For members of the United States Armed Forces, active-duty pay is considered base non-fluctuating earnings.Part-time earnings, provided the number of hours worked each pay period are pre-determined and the same, as outlined above. <p>Base non-fluctuating earnings do not include additional employed income (e.g., bonus, overtime, tips). Refer to Additional Employed Income section or to Guide Section 5303.3 for complete requirements and guidance.</p> <p>Fluctuating hourly employment earnings For determining stable monthly income, fluctuating hourly employment earnings are considered to be employment earnings with hours that may fluctuate each week or pay period. The hours are not pre-determined; however, the employer and the borrower may have a general expectation of weekly hours. The hourly pay rate is a pre-determined and agreed upon fixed amount. Fluctuating hourly earnings:</p> <ul style="list-style-type: none">May be determined by a review of the YTD income verification documentation with analysis focused on hours per pay period and YTD earnings in relation to hours worked.Are not considered base or salaried earningsFrom employment are typically representative of non-exempt earnings. <p>Do not include additional employed income (e.g., bonus, overtime, tips). Refer to Additional Employed Income section or to Guide Section 5303.3 for complete requirements and guidance.</p> <p>Effective 4/2/2020: Revisions to our requirements for employed income analysis and calculation announced in Bulletin 2019-20 will go into effect. Sellers are encouraged to implement as soon as possible.</p>

https://sf.freddiemac.com/content/_assets/resources/pdf/update/docmatrix.pdf

Capacity: Freddie Mac 2019-20

**Effective for Mortgages with Settlement Dates on or After April 2, 2020
but Seller are ENCOURAGED to implement as soon as possible**

- Require that when the borrower's income is derived from fluctuating hourly employment earnings, under no circumstances may the employment history be less than 12 months.
- Adding a requirement that for base hourly earnings to be considered non-fluctuating for the purpose of income calculation, the borrower must have a documented history of working the same number of hours with the same employer for a minimum of six months
- Clarifying that “fluctuating hourly employment earnings” are considered to be wages that are based on an hourly rate of pay and where the number of hours fluctuate each pay period
- Alignment of income calculation requirements for all fluctuating employment income types (hourly base, overtime, bonus, commission and tips). The calculation is based on whether the income trend is determined to be consistent, increasing or declining.
- Adding requirements for additional analysis when income fluctuation between the prior year(s) and year-to-date exceeds 10%.

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 <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>*Note: Investor Guidelines/Overlays may differ from Fannie Mae/Freddie Mac Requirements</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

Comparative Income Analysis

Fannie Mae

Borrower Name

Company Name

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

Gross Income: Gross receipts or Gains (+) Returns and Allowances
Expenses: Cost of goods sold (+) Total deductions
Taxable Income: from
IRS Form 1040 – Schedule C = Net Profit or Loss (Sole Proprietorship)
IRS Form 1065 – Ordinary Income or Loss (Partnership)
IRS Form 1120 – Ordinary Income or Loss (S Corporation)
IRS Form 1120 – Taxable Income (Corporation)

Calculation Instructions: Determine year-to-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 <input type="text"/>	100%	Year <input type="text"/>	100%	Year <input type="text"/>	100%
% Change <input type="text"/>	(+) or (-) <input type="text"/>	(+) or (-) <input type="text"/>	(+) or (-) <input type="text"/>		

Expenses:
Step 1. Enter the expense income figures from each year's statement where indicated.
Step 2. Determine what percentage expenses are 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. Enter the percentage change 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 expenses.
Enter the percentage of increase and decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year <input type="text"/>	100%	Year <input type="text"/>	100%	Year <input type="text"/>	100%
Expenses <input type="text"/>	(%) <input type="text"/>	Expenses <input type="text"/>	(%) <input type="text"/>	Expenses <input type="text"/>	(%) <input type="text"/>
% Change <input type="text"/>	(+) or (-) <input type="text"/>	(+) or (-) <input type="text"/>	(+) or (-) <input type="text"/>		

*The expenses and taxable income each period as a percentage of gross income for that period.
**The percentage change for each item 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 trend.

This form can be used with any business return, including Sole Proprietor (IRS Form 1040, Schedule C or C-EZ), 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

Comparative Income Analysis

Fannie Mae

Borrower Name

Company Name

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

Gross Income: Gross receipts or Gains (+) Returns and Allowances
Expenses: Cost of goods sold (+) Total deductions
Taxable Income: from
IRS Form 1040, Schedule C = Net Profit or Loss (Sole Proprietorship)
IRS Form 1065 = Ordinary Income or Loss (Partnership)
IRS Form 1120S = Ordinary Income or Loss (S Corporation)
IRS Form 1120 = Taxable Income (Corporation)

Calculation Instructions: Determine year-to-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 <input type="text"/>	100%	Year <input type="text"/>	100%	Year <input type="text"/>	100%
Gross Income <input type="text"/>	(%) <input type="text"/>	Gross Income <input type="text"/>	(%) <input type="text"/>	Gross Income <input type="text"/>	(%) <input type="text"/>
% Change <input type="text"/>	(+) or (-) <input type="text"/>	(+) or (-) <input type="text"/>	(+) or (-) <input type="text"/>		

Expenses:
Step 1. Enter the expense income figures from each year's statement where indicated.
Step 2. Determine what percentage expenses are 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. Enter the percentage change 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 expenses.
Enter the percentage of increase and decrease where indicated. Be sure to indicate a + (plus) or - (minus) sign.

Year <input type="text"/>	100%	Year <input type="text"/>	100%	Year <input type="text"/>	100%
Expenses <input type="text"/>	(%) <input type="text"/>	Expenses <input type="text"/>	(%) <input type="text"/>	Expenses <input type="text"/>	(%) <input type="text"/>
% Change <input type="text"/>	(+) or (-) <input type="text"/>	(+) or (-) <input type="text"/>	(+) or (-) <input type="text"/>		

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

Page 1

<https://new.mortgageinsurance.genworth.com/self-employed-borrower-calculators>

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 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 include 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 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 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 ≥ 5 years¹	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.

INCOME AND EMPLOYMENT DOCUMENTATION, continued

Topic	Documentation Requirements (Streamlined and Standard Documentation Levels)	
	Self-employed Income (continued)	
Documentation Requirements (continued) (Guide Section 5304.1(h))	Business in existence ≥ 5 years¹	Business in existence < 5 years
	S Corporation Verify the number of years that the business has been in existence and obtain complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent year.	Verify the number of years that the business has been in existence and obtain complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent two years.
	Corporation Verify the number of years that the business has been in existence and obtain complete signed federal individual and Corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent year.	Verify the number of years that the business has been in existence and obtain complete signed federal individual and Corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, 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.

Refer to Chapter 5304 for complete requirements and guidance.

<https://sf.freddiemac.com/content/assets/resources/pdf/update/docmatrix.pdf>

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 and higher versions
 - 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 and higher 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
 - Document with letter from employer/responsible party

<https://www.fanniemae.com/content/guide/selling/b3/6/05.html>

https://guide.freddiemac.com/app/guide/content/a_id/1000663 Chapter 5401.2

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

CREDIT AND LIABILITIES, continued

Student Loans (Guide Section 5401.2)	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, orIf 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, orThe 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 <p>*Effective 1/2/2020:</p> <ul style="list-style-type: none">The borrower is eligible or approved for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program. Evidence of eligibility or approval must come from the student loan program or the employer, as applicable.
Loans on financial assets (Guide Section 5401.2)		Payments on loans secured by financial assets that may be repaid through liquidation of the asset may be excluded from the qualifying ratios provided the loan was made by a financial institution, and the asset is reduced by the outstanding balance of the loan when including it in the funds available to the borrower.

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

<https://www.fanniemae.com/content/guide/selling/b3/6/05.html#Debts.20Paid.20by.20Others>

https://guide.freddiemac.com/app/guide/content/a_id/1000663 Chapter 5401.2

Credit History

Recent Credit Inquiries

– Definition

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

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>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 	<p>*Note: Investor Guidelines/Overlays may differ from Fannie Mae/Freddie Mac Requirements</p>

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 be included as IPC
- Check for guideline overlays
- Put a condition on loan approval and Closing instructions for IPC not to exceed “X” amount
- See guidelines on next slides

IPC's- Fannie Mae

Selling Guide

Published December 4, 2019

[Guide Table of Contents](#)

B3-4.1-02: Interested Party Contributions (IPCs) (08/07/2019)

This topic contains information on interested party contributions, including:

[Overview](#)

[IPC Limits](#)

[Lender Checklist for IPCs](#)

[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%

<https://www.fanniemae.com/content/guide/selling/b3/4.1/02.html>

IPC's- Freddie Mac

5501.5 < [Prev](#) [Next](#) >

Interested party contributions

Effective 07/06/2017

[Guide Home](#) > [Selling](#) > [Series 5000 : Origination and Underwriting](#) > [Topic 5500 : Assets](#) > [Chapter 5501 : Assets](#)

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(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.

https://guide.freddiemac.com/app/guide/content/a_id/1000668

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 a single 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 information.

Fannie Mae Single Family Selling Guide

§ B3-4.2-02, Depository Accounts (12/06/2016)

The unsourced \$500 is 12.5% of the borrower's \$4,000 monthly income, falling short of the 50% definition of a large deposit. Therefore, it is not considered a large deposit and the entire \$20,000 balance in the ABC Bank account can be used for underwriting purposes.

- **Scenario 2:** Using the same borrower example, a deposit of \$3,000 is identified, but only \$500 is documented as coming from the borrower's federal income tax refund, leaving \$2,500 unsourced.

In this instance, the unsourced \$2,500 is 63% of the borrower's \$4,000 monthly income, which does meet the definition of a large deposit. Therefore, the unsourced \$2,500 must be subtracted from the account balance of \$20,000 and only the remaining \$17,500 may be used for underwriting purposes.

Deposits Which May Indicate Borrowed Funds Must Be Investigated.

Capital

Large Deposits Freddie Mac

- A large deposit is any single 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 DOCUMENTATION	
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 the next section (from 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. <p>Asset documentation must be maintained in the mortgage file and must also meet the general requirements for verifying documents (5102.3), age of documentation (5102.4) and asset eligibility and documentation requirements (5501.3). In addition:</p> <ul style="list-style-type: none">▪ For purchase transactions, document the source of funds for any large deposit when the deposit is needed to qualify the borrower for the mortgage transaction. A large deposit is any single deposit that exceeds 50% of the sum of:<ul style="list-style-type: none">- The total monthly qualifying income for the mortgage.- The amount derived from the asset calculation for establishing the DTI ratio in accordance with the requirements of Guide Section 5307.1, if applicable.▪ When a large deposit is not verified and is not needed to qualify the borrower for the mortgage transaction:<ul style="list-style-type: none">- Reduce the funds used for qualifying purposes by the amount of the unverified deposit.- 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. <p>Additional resources available are Understanding Loan Product Advisor's Determination of Total Funds to Be Verified and Understanding Loan Product Advisor's Determination of Reserve Requirements</p>

Deposits Which May Indicate Borrowed Funds Must Be Investigated.

<https://sf.freddiemac.com/content/assets/resources/pdf/update/docmatrix.pdf>

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: Fannie Mae

Borrower's Own Funds: Fannie Mae *Selling Guide* Chapter B3-4.3-04 Personal Gift (09-29-2015)

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: Freddie Mac

Borrower's Own Funds *Freddie Mac Seller Servicer Guide (Chapter 5501.3(b)(i))*

- 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)	

Capital

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

Fannie Mae Single Family Selling Guide § B3-4.3-04, Personal Gifts (09/29/2015) ; Freddie Mac Seller Servicer Guide §5501.3(c)

**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.*

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: May Require the gift to be transferred to the borrower prior to closing, unless it is a gift of equity.

Fannie Mae Single Family Selling Guide § B3-4.3-04, Personal Gifts (09/29/2015); Freddie Mac Seller Servicer Guide §5501.3(c)

Assets and Liabilities

* New

*

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.

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

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

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

Account Type – use list above	Financial Institution	Account Number	Cash or Market Value
▼			\$
▼			\$
▼			\$
▼			\$
▼			\$
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.

Capital- Gift Funds: Freddie Mac

ASSET DOCUMENTATION, continued

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

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

Does not apply

Include all gifts and grants below. Under Source, choose from the sources listed here:

- Community Nonprofit
- Federal Agency
- Relative
- State Agency
- Lender
- Employer
- Local Agency
- Religious Nonprofit
- Unmarried Partner
- Other

Asset Type: Cash Gift, Gift of Equity, Grant	Deposited/Not Deposited	Source – use list above	Cash or Market Value
	<input type="radio"/> Deposited <input type="radio"/> Not Deposited		\$
	<input type="radio"/> Deposited <input type="radio"/> Not Deposited		\$

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.

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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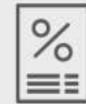
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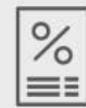


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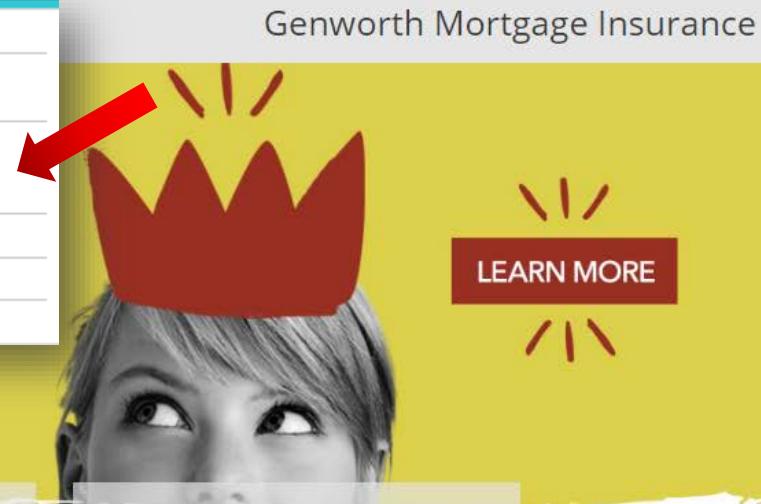
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Browse by Topic

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	 Schedule Analysis Method (SAM) Calculator (2017-2018) Calculate qualifying income from tax 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.
	 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 (Principal Residence, 2- to 4-unit Property)	 Fannie Mae Rental Guide (Calculator 1038) Worksheet for calculating qualifying rental income for Fannie Mae Form 1038 (Individual Rental Income from Investment Property)
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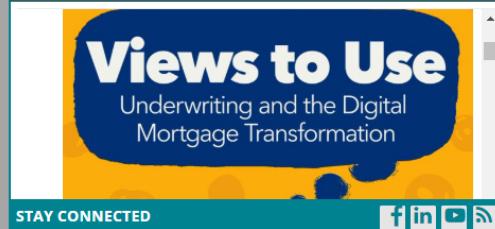
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