

Fannie Mae and Freddie Mac: Understanding Your Options

November 2019



YOU-CENTRIC SOLUTIONS THAT MATTER

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Genworth 
Mortgage Insurance

Course Objectives

- Learn how to properly structure a loan to your advantage, by understanding differences between Fannie Mae and Freddie Mac qualifying guidelines
- Save time up front by knowing which GSE to select, when both are an option

NOTE: This is NOT a comprehensive list of all differences, but includes some of the impactful differences between the agencies.

Today's Presentation Covers Non-High LTV Loans And Guidelines Applicable To Loans Submitted To Desktop Underwriter® And Loan Product Advisor®

Agenda

- LTV Differences
- Credit and liabilities
- Assets and Reserves
- Income
- Multiple Financed Properties
- Interested Party Contributions
- Appraisal
- General Reminders on Updates
- Genworth MI Website
- Helpful Tools

LTV Differences Primary and Second Home

Fannie Mae (Fixed Rate/ARMS**)

- Maximum LTV/TLTV/HCLTV

Purchase and Limited Cash-Out Refi

- 1-unit Primary 97 (Fixed Only)**
- 2-unit Primary 85%
- Second Home 90%
- 3-4 unit Primary 75%

Cash-Out Refinance

- 1-unit Primary 80%
- 2-4 unit Primary 75%
- Second Home 75%

Freddie Mac (Fixed Rate/ARMS)

- Maximum LTV/TLTV/HTLTV

Purchase and No Cash-Out Refi*

- 1-unit Primary 97 (Fixed only)**
- 1-unit Primary 95%
- 2 unit Primary 85%
- 3-4 unit Primary 80% (Has the advantage)
- Second Home 90%

Cash-Out Refinance

- 1-unit Primary 80%
- 2-4 unit Primary 75%
- Second Home 75%

*See expanded LTV requirements for no cash-out loan that Freddie Mac currently owns

**97% LTVs must be fixed rate conforming, borrower must have a credit score and for purchases, at least one borrower must be a first-time homebuyer; for a refinance, the applicable GSE must be the existing investor (HomeOneSM Freddie's 97% available July 29, 2018)

Excludes HomeReady and Home Possible Program LTVs

LTV Differences Investment Properties

Fannie Mae (Fixed Rate/ARMS)

- Maximum LTV/TLTV/HCLTV

Purchase

- 1-unit 85%
- 2-4 unit 75%

Limited Cash-Out Refinance

- 1-4 units 75%

Cash-Out Refinance

- 1-unit 75%
- 2-4 unit 70%

Freddie Mac (Fixed Rate/ARMS)

- Maximum LTV/TLTV/HTLTV

Purchase and *No Cash-out Refi

- 1-unit 85%(One unit refi has the advantage)
- 2-4 unit 75%

Cash-Out Refinance

- 1-unit 75%
- 2-4 unit 70%

*See LTV requirements for No Cash-out Loan that Freddie Mac currently owns

No Cash and Limited Cash Out Amounts

Fannie Mae

- Limited cash-out is defined as allowing cash back up to lessor of 2% of the Mortgage amount or \$2000

Freddie Mac (Effective for Mortgages with Settlement dates on and after October 27, 2018)

- No cash out is defined as allowing cash back up to the greater of 1% of the Mortgage amount or \$2000

Credit and Liabilities

Fannie Mae

- Maximum DTI is 50%
 - Updated to not require additional compensating factors from 45% to 50%
 - Fine-tuned in Jan. 2018
- DU® carries out DTI to two decimal places
- 20.99% = 20.99%

QUALIFYING RATIOS

Housing Expense	5.64%
Debt-to-Income	7.11%

Fannie Mae

- Minimum Published 620 credit score

Freddie Mac

- No published maximum DTI
- Rounds down on the DTI
- 20.49% = 20%

DEBT RATIO

20%

Freddie Mac

- No published minimum

Credit and Liabilities

Fannie Mae

- **30 Day Charge Accounts** or Open Ended Accounts
 - Must be omitted and funds verified to pay off (reserves); or
 - Verify employer reimburses borrower (corporate expense account)
- **Collection Accounts**
 - 2-4 unit and second home loans with collections totaling more than \$5,000 must be paid off
 - Investment properties, individual collections of \$250, or a loan that has accounts that total \$1,000 all must be paid off

Freddie Mac

- **30 Day Charge Accounts** or Open Ended Accounts
 - Can be omitted and funded verified to pay off (reserves); or
 - Verify employer reimburses borrower (corporate expense account); or
 - If no payment listed, lenders may use 5%
- **Collection Accounts**
 - No written policy, cannot affect Freddie Mac first lien position

Credit and Liabilities

Fannie Mae

- **Disputed tradelines** DU tries to assess with the tradeline - if Approve, no additional action needed
 - DU will reassess without disputed tradelines and lenders must comply with DU messages

Freddie Mac

- **Disputed tradelines** Loan Product Advisor tries to qualify with disputed tradeline
 - Will receive “Invalid” if unable to decision and must be manually underwritten if lender allows

Credit and Liabilities

Fannie Mae

- **Alimony** *may be included as a liability or subtracted from income**
- **Mortgage payment history** NOT reported on the credit report – DU will require for verification of payment history (read findings message)

Freddie Mac

- **Alimony** and maintenance payments must be subtracted from income (Effective immediately with 2019-05)
- **Mortgage using payment history is NOT required** for ACCEPT loans with a credit score, only documentation of the payment amount

*Note when entering in your LOS or DU, enter alimony as a separate “negative income source”

Credit and Liabilities

Fannie Mae

- Student Loan debt lender may use for deferred loans:
 - Payment on credit report if one is listed
 - Monthly payment from student loan documents
 - 1% of the outstanding student loan balance
- Loans in repayment:
 - Payment on the credit report; If zero, lenders may use zero if loan is an IBR loan and documentation provided supports actual payment is zero
- **Fannie has a student loan cash-out option**
 - Allows for payoff of a first, second and student loans, but is priced as a limited cash-out refinance...see *next slide*

Freddie Mac: Repayment, Deferment or Forbearance (Effective for loans with Settlement dates on or after November 1, 2018)

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

*See the Freddie Mac Loan Product Advisor Documentation Matrix for more details

Credit and Liabilities

Fannie Mae

Freddie Mac

- *Student Loan in Forgiveness, cancellation, discharge and employment contingent repayment programs
- Monthly payment amount may be excluded from DTI, if file contains evidence
 - Student loans have less than 10 months payments; or
 - Payments are deferred or in forbearance and the full balance will be forgiven at the end of the deferment/forbearance period; AND
 - **The mortgage file must contain documentation indicating 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**

Effective January 2, 2020

*See Freddie Mac Loan Product Advisor Documentation Matrix for more details

Fannie Mae Student Loan Cash-Out Refinance

Priced as Limited Cash Out

- Subject to Cash-out LTV limits

Student Loan Cash-out Refinance

With this update, we are introducing the student loan cash-out refinance feature, a cost-effective alternative to use existing home equity to pay off student loan debt. This feature provides the opportunity for borrowers to payoff one or more student loans through the refinance transaction, potentially reducing their monthly debt payments. The loan-level price adjustment that applies to cash-out refinance transactions will be waived when all requirements have been met.

The student loan cash-out refinance feature contains elements of both a cash-out refinance and a limited cash-out refinance transaction as described in the table below.

Student Loan Cash-out Refinance Features		
Student Loans Eligible for Payoff	<ul style="list-style-type: none">At least one student loan must be paid off. Loan proceeds must be paid directly to the student loan servicer at closing.Only student loans for which the borrower is personally obligated can be paid through the transaction.Student loan debt must be paid in full with the proceeds – partial payments of student loan debt are not permitted.	New policy
Eligibility	The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply per the <i>Eligibility Matrix</i>	Aligns with cash-out refinance
Underwriting Method	DU only	New policy
Maximum Cash Back	Lesser of 2% or \$2k (over and above the student loan payoff)	Aligns with limited cash-out refinance
Mortgage Payoff	1 st mortgage and purchase-money seconds	Aligns with limited cash-out refinance
Other Requirements	<ul style="list-style-type: none">Property cannot be listed for sale at time of disbursementPayoff of taxes ineligible unless escrow account is establishedPayoff of delinquent taxes ineligible	Aligns with limited cash-out refinance

Lenders must deliver the following Special Feature Code (SFC) 841, Student Loan Cash-Out Refinance, at the time of delivery.

NOTE: The *Eligibility Matrix*, *Special Feature Codes*, and *Loan-Level Price Adjustment Matrix* will be updated to reflect the applicable changes.

Effective Date

This policy is effective immediately. DU is not currently able to identify these transactions or issue specific messaging so lenders must confirm the loan meets all the requirements to include SFC 841 at time of delivery.

ALL Borrowers Without Credit Scores

Fannie Mae DU

- Max LTV/CLTV/HCLTV 90%
- 1-unit non-manufactured home
- Conforming only; no high balance
- Owner occupied only
- Purchase or Limited Cash-Out Refi
- Fixed Rate
- **Maximum DTI 40%**
- Must verify two tradelines for 12 months, per DU findings message
 - One must be housing related

Freddie Mac Loan Product Advisor

- **Max LTV/TLTV/HTLTV 95%**
- 1-unit non-manufactured home
- Conforming only; no super conforming
- Owner occupied only
- Purchase or No Cash-Out Refi
- Fixed Rate
- Must verify two tradelines for 12 months
 - One must be housing related

Both DU and Loan Product Advisor Allow For Loans Where No Borrower Has A Useable Credit Score

Credit and Liabilities

Fannie Mae

- **Federal Tax Liens**
- Allowed to include the payment due under a federal income tax installment agreement in the DTI, instead of payment in full
 - Lenders must obtain a copy of the approved IRS agreement
 - Evidence the borrower is current on payments must be documented in the loan file and at least one payment must have been made
 - Tax lien cannot be in the same county as the property
- See the DU findings message for full requirements when applicable

Payoff of existing judgments and tax liens
(Guide Section 4201.2)

The mortgage must be a valid First Lien on the Mortgaged Premises. The Mortgaged Premises must be free and clear of all prior liens and encumbrances and no rights or condition may exist that could give rise to such liens, except for:

- Liens for real estate taxes and special assessment not yet due and payable,
- Rights and conditions specified in Guide Section 4702.4

Freddie Mac

- **Federal Tax Liens**
- **No policy to allow for payments**

Significant Derogatory Credit

Fannie Mae

- Approve/Eligible
 - Lenders must review the waiting period before origination of the new loan
 - Extenuating circumstances
 - Financial mismanagement

Derogatory Event	Waiting Period Requirements
Bankruptcy — Chapter 7 or 11	4 years
Bankruptcy — Chapter 13	<ul style="list-style-type: none">• 2 years from discharge date• 4 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years
Foreclosure ¹	7 years
Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account	4 years

Freddie Mac

- Accept/Eligible
 - **Loan Product Advisor has determined the credit reputation is acceptable**
- Caution: Lenders must follow standard or manual Freddie Mac underwriting guidelines, which require mandatory waiting periods and establishment of new credit before new origination can occur

(b) Evaluating Borrower's credit reputation

For Accept Mortgages and A-minus Mortgages, Loan Product Advisor has evaluated the Borrower's credit reputation, and determined that the credit reputation is acceptable.

Assets and Reserves

Fannie Mae

- **Use of business assets** for closing
 - NO specific policy on review of large deposits on business statements
 - Deposits must make sense for the business and each loan looked at case by case
- **Gifts** can be transferred prior to or at closing
- **Gifts from wedding**, allowed to address large deposits; Weddings are NOT an acceptable gift donor

Freddie Mac

- **Use of business assets** for closing
 - Policy allows to document **two months** business account statements
 - **Are large deposits typical? If so, no further documentation is required**
- **Gifts** typically **must be transferred prior to closing**
- **Gifts from wedding**, allowed but funds must be deposited **within 60 days of the marriage license or certificate**; Weddings are allowed to address large deposits; Weddings are NOT an acceptable gift donor

Today's Presentation Covers Non-High LTV Loans And Guidelines Applicable To Loans Submitted To Desktop Underwriter And Loan Product Advisor

Assets and Reserves

Fannie Mae

- **Two** months asset statements for depository accounts for ALL DU loans

Freddie Mac

- Streamlined Accept **One** month assets statements
- Standard Documentation **Two** months asset statements

Today's Presentation Covers Non-HARP Loans And Guidelines Applicable To Loans Submitted To Desktop Underwriter And Loan Product Advisor

Self-Employment

Fannie Mae SEB Documentation

- One or two years, based on DU findings message
- Business returns may be waived if business in existence for 5 years, income stable on personal returns and using only personal funds
- SEB second job with a loss, not required to subtract
- SEB co-borrower income not required to subtract
- Self-employment is **NOT** a risk factor unless it is the borrowers primary source of income or when there are multiple borrowers and both are using self-employed income as their primary source of income

Freddie Mac SEB Documentation

- Must be self-employed in the same business > 5 years to only obtain 1 year personal and business tax return
 - All other cases require 2 years
- SEB income Secondary Source: Sellers not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each borrower who:
 - Has a primary source of income, other than self-employment, used for qualifying the Mortgage (i.e. Salary and
 - Is self-employed, and the self-employment income is a secondary source of income
 - Policy updated and effective September 19, 2018

Self-Employment

Fannie Mae SEB Documentation

- One or two years, based on DU findings message
- Business returns may be waived if business in existence for 5 years, income stable on personal returns and using only personal funds
- SEB second job with a loss, not required to subtract
- SEB co-borrower income not required to subtract
- Self-employment is **NOT** a risk factor unless it is the borrowers primary source of income or when there are multiple borrowers and both are using self-employed income as their primary source of income

Freddie Mac

SEB Documentation

- Must be self-employed > 5 years to only obtain 1 year personal and business tax return
 - All other cases require 2 years
- SEB income If primary Source of Income: Must review pages 1 and 2 of 1040 and applicable schedules
 - If positive, no further action
 - If a loss, subtract and if qualifies no further action
 - If doesn't qualify, full personal and business returns required
- Self-employment is a risk factor in all cases when you are using the income or loss to qualify (meaning you were required to mark the SEB box)

Rental Income

Fannie Mae (SEL 2019-08) Rental Income (Effective December 7, 2019 for new casefiles submitted to DU)

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing a two- to four-unit principal residence or one- to four-unit investment property, the lender must consider the following:

If the borrower...	Then for qualifying purposes...
<ul style="list-style-type: none">currently owns a principal residence (or has a current housing expense), andhas at least a one-year history of receiving rental income or documented property management experience	there is no restriction on the amount of rental income that can be used.
<ul style="list-style-type: none">currently owns a principal residence (or has a current housing expense), andhas less than one-year history of receiving rental income or documented property management experience	<ul style="list-style-type: none">for a principal residence, rental income in an amount not exceeding the PITIA of the subject property can be added to the borrower's gross income, orfor an investment property, rental income can only be used to offset the PITIA of the subject property.
<ul style="list-style-type: none">does not own a principal residence, anddoes not have a current housing expense	rental income from the subject property cannot be used.

Note: This policy does not apply to HomeReady loans with rental income from an accessory unit.

Freddie Mac Rental Income (Effective March 1, 2019)

- Borrower's must own a Primary Residence to use rental income to qualify when purchasing a new rental property; and
- Whether purchasing a new rental property or converting a primary Residence to a rental property, if the Borrower does not have a minimum of one-year investment property management experience
 - Rental income can only offset the PITIA of the rental property; and
 - Rental income exceeding the PITIA cannot be added to gross monthly income used to qualify

Second Homes

Fannie Mae

- Must be occupied by the borrower for some portion of the year
- Must be suitable for year-round occupancy
- Borrower must have exclusive control of the property
- Must not be a rental property or timeshare arrangement
- Cannot be subject to any agreements that give a management firm control over the occupancy of the property
- If lender identifies rental income from the property, the loan is eligible for delivery as a second home as long as the income is not used for qualifying and all other requirements for second homes are met (including occupancy)

Freddie Mac **Bulletin 2019-07**

- **Permits second homes with seasonal limitations on year-round occupancy (i.e. lack of winter accessibility) if appraiser provide at least one similar comparable**
- Second Homes may be rented out short term provided that borrower keeps the property primarily as a residence of personal use; and
- The property is not subject to a rental pool/agreement that require the borrower to rent the property to a management company or entity control over the occupancy of the property or involve revenue sharing between any owners, developers or another party

Income Commencing After The Note Date

Fannie Mae Option Two

- Purchase Only
- Primary
- One Unit
- Income must start within 90 days of the note date

Employment Offers or Contracts

If the borrower is scheduled to begin employment on or after the note date, the lender may deliver the loan in accordance with the following requirements:

✓	
	The lender must obtain an executed offer or contract for future employment that clearly identifies the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower.
	Prior to delivering the loan, the lender must obtain and review the borrower's offer or contract for future employment. The employment offer or contract must:

No requirement income must start within 90 days of the note date

Option 2 – Paystub Not Obtained Before Loan Delivery

This option is limited to loans that meet the following criteria:

- purchase transaction,
- principal residence,
- one-unit property,
- the borrower is not employed by a family member or by an interested party to the transaction, and
- the borrower is qualified using only fixed based income.

The lender must obtain and review the borrower's offer or contract for future employment. The employment offer or contract must:

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

Also note that for a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union may provide the executed employment offer or contract for future employment.

The borrower's start date must be no earlier than 30 days prior to the note date or no later than 90 days after the note date.

Prior to delivery, the lender must obtain the following documentation depending on the borrower's employment start date:

If the borrower's start date is...	Documentation Required
The note date or no more than 30 days prior to the note date	<ul style="list-style-type: none"> • Employment offer or contract; and • Verbal verification of employment that confirms active employment status
No more than 90 days after the note date	Employment offer or contract

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

- Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
- Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month.

Financial resources may include:

- financial reserves, and
- current income.

Current income refers to net income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, but a verification of employment is not required.

The lender must deliver the loan with Special Feature Code 707.

Income Commencing After The Note Date

Freddie Mac

- Freddie Mac allows use of a “future salary increase” →
- Option 1 is the Option where income must start within 90 days of the note date
- Option 1 is 1 unit Primary Only
- Option 2 difference loan purpose and property types

Employed Income: Income Commencing After the Note Date (Guide Section 5303.2(e))		
For borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income, provided all requirements for either Option One or all requirements for Option Two in the following table are met.		
Subject	Option One	Option Two
Start date of the new employment or future salary increase	<ul style="list-style-type: none"> ▪ Must be no later than 90 days after the Note Date ▪ May be before or after the Delivery Date 	<ul style="list-style-type: none"> ▪ No limit on the number of days after the Note Date ▪ Must be before the Delivery Date
Eligible employment and earnings type	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> ▪ Income must be from new primary employment or a future salary increase with the current primary employer ▪ Income must be non-fluctuating and salaried earnings (e.g., hourly earnings are not permitted), and ▪ The borrower's employer must not be a family member or an interested party to the real estate or mortgage transaction 	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> ▪ Income must be from new primary employment ▪ Earnings must be non-fluctuating and salaried (e.g., hourly earnings are not permitted) and ▪ The borrower's employer must not be a family member or an interested party to the real estate or mortgage transaction
Eligible loan purpose	<p>The mortgage must be originated for one of the following purposes:</p> <ul style="list-style-type: none"> ▪ Purchase transaction ▪ “No cash-out” refinance 	<p>The mortgage must be originated for one of the following purposes:</p> <ul style="list-style-type: none"> ▪ Purchase transaction ▪ “No cash-out” refinance ▪ Cash-out refinance
Eligible Mortgaged Premises	<p>The mortgaged premises must be a 1-unit Primary Residence</p>	<p>The mortgaged premises must be one of the following:</p> <ul style="list-style-type: none"> ▪ 1- to 4-unit Primary Residence ▪ Second home ▪ 1- to 4-unit Investment Property

Income Commencing After The Note Date

Freddie Mac

- Option 2 allows for reduction of additional funds

Topic	Documentation Requirements (Streamlined and Standard Documentation Levels)																									
Employed Income: Income Commencing After the Note Date (Guide Section 5303.2(e)), continued																										
Subject	Option One	Option Two																								
Verification of additional funds	<p>In addition to funds required to be paid by the Borrower and Borrower reserves, you must verify additional funds in the Borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, as described in Section 5401.1, and other monthly liabilities, as described in Section 5401.2, multiplied by the number of months between the Note Date* and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for the purpose of this calculation.</p> <p>The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase.</p> <p>*Effective August 1, 2019 (sellers can implement immediately), for Option 2, the above requirements apply when there are more than 15 calendar days between the Note Date and the start date of the new employment.</p> <p>Sellers may use the following worksheet to assist with the additional funds calculation:</p>																									
	<table><tr><th colspan="3">Calculation for Verification of Additional Funds Worksheet</th></tr><tr><td>1</td><td>Total monthly housing expense (Section 5401.1)</td><td>\$ _____</td></tr><tr><td>2</td><td>Monthly debt payment (Section 5401.2)</td><td>\$ _____</td></tr><tr><td>3</td><td>Line 1 + Line 2</td><td>\$ _____</td></tr><tr><td>4</td><td>Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month</td><td>_____</td></tr><tr><td>5</td><td>(Line 3) x (Line 4)</td><td>\$ _____</td></tr><tr><td>6</td><td>Borrower's verified gross income expected between Note Date and start date of new employment</td><td>\$ _____</td></tr><tr><td>7</td><td>Line 5 – Line 6</td><td>\$ _____ (This is the amount of additional funds the Seller must verify)</td></tr></table>		Calculation for Verification of Additional Funds Worksheet			1	Total monthly housing expense (Section 5401.1)	\$ _____	2	Monthly debt payment (Section 5401.2)	\$ _____	3	Line 1 + Line 2	\$ _____	4	Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month	_____	5	(Line 3) x (Line 4)	\$ _____	6	Borrower's verified gross income expected between Note Date and start date of new employment	\$ _____	7	Line 5 – Line 6	\$ _____ (This is the amount of additional funds the Seller must verify)
	Calculation for Verification of Additional Funds Worksheet																									
	1	Total monthly housing expense (Section 5401.1)	\$ _____																							
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3	Line 1 + Line 2	\$ _____																								
4	Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month	_____																								
5	(Line 3) x (Line 4)	\$ _____																								
6	Borrower's verified gross income expected between Note Date and start date of new employment	\$ _____																								
7	Line 5 – Line 6	\$ _____ (This is the amount of additional funds the Seller must verify)																								

Income Commencing After The Note Date

Freddie Mac

- Effective for Loans with Settlement dates August 1, 2019 but Sellers can Implement Immediately

Topic	Documentation Requirements (Streamlined and Standard Documentation Levels)	
Employed Income: Income Commencing After the Note Date (continued)		
Subject	Option One	Option Two
Required Documentation	<p>The following documentation is required:</p> <ul style="list-style-type: none">▪ Copy of the employment offer letter, employment contract or other evidence of the future salary increase that:<ul style="list-style-type: none">– Is fully executed and accepted by the borrower– Is non-contingent or provides documentation, such as a letter or an e-mail from the employer verifying all contingencies have been cleared– Includes the terms of employment, including employment start date and annual income based on non-fluctuating earnings▪ For a future salary increase provided by the borrower's current employer, the above documentation must indicate that the increase is fully approved and is explicitly granted to the borrower▪ A 10-day pre-closing verification (PCV) verifying the terms of the employment offer letter, contract or salary increase have not changed (refer to Section 5302.2(d))▪ Documentation of additional funds, as required above	<p>The following documentation is required:</p> <ul style="list-style-type: none">▪ Copy of the employment offer letter or employment contract that:<ul style="list-style-type: none">– Is fully executed and accepted by the borrower– Includes the terms of employment, including but not limited to, employment start date and annual income based on non-fluctuating earnings▪ Paystub, written verification of employment (VOE) or a third-party employment verification supporting the income used for qualifying the Borrower▪ Documentation of additional funds, as required above

Income

Fannie Mae

- Restricted Stock and Restricted Stock Units
 - No policy for the use as income

Freddie Mac

- Restricted Stock and Restricted Stock Units may be considered, under certain conditions
 - Two year consecutive history of receipt
 - To be considered for history of receipt, RS and RSU used for qualifying must have been vested and been distributed to the borrower from their current employer without restriction
 - Must be likely to continue for at least the next three years
 - YTD paystub documenting all YTD earnings, including payouts of RS or RSU, W-2 forms for the most recent two calendar years and 10-day PCV is required

Income

Fannie Mae (No change to policy)

- Variable Income (All income calculated by averaging method), requires history of receipt of two years or more; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the loan file demonstrates positive factors that reasonably offset the shorter income history

Freddie Mac

- **Effective for Settlement Dates on or After April 2, 2020**
- When borrowers income is derived from fluctuating hourly employment earnings, **under no circumstances** may the employment history be less than 12 months
- For base hourly earnings to be considered non-fluctuating, the Borrower must have a documented history of working the same number of hours with the same employer for a minimum of six months
- Aligned income calculation requirements for hourly base, overtime, bonus, commission and tips. The calculation is based on whether income trend is consistent, increasing or declining.

Income

Fannie Mae

- Restricted Stock and Restricted Stock Units
 - No policy for the use as income

Freddie Mac

- Effective for Settlement Dates on or After April 2, 2020
- Adding requirements for additional analysis when income fluctuation between the prior year(s) and year-to-date exceeds 10% and removed the requirement for additional analysis when earnings show “a high degree of volatility or irregular pattern).

Assets As Basis For Repayment

Fannie Mae

- Allows if a non self-employed severance package or non self-employed lump sum retirement package (a lump sum distribution) – these funds must be documented with distribution letter from employer (1099-R) and deposited
- 401k, IRA, SEP, Keogh retirement accounts, borrower must have unrestricted access and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify.
- Ineligible assets are non-employment –related assets (stock options, non-vested restricted stock, lawsuits, checking and savings accounts

Freddie Mac

- Chapter 5307.1 Allows for use for most asset types including IRA, 401k, lump sum distributions of funds not yet deposited, depository accounts and securities, assets from the sale of a borrowers sole business

Assets As Basis For Repayment

Fannie Mae

- If employment-related assets are in the form of stocks, bonds and mutual funds, 70% of the value (remaining after costs for the transaction and consideration of any penalty) must be used to determine the income stream to account for the volatile nature of these assets
- Fannie Mae's calculation formula requires lenders to use 360 months when determining the income stream
- Maximum LTV/CLTV/HCLTV is 70%; 80% if the owner (or all owners) of the assets being used to qualify is at least 62 years old at the time of closing

Freddie Mac (Effective July 3,2019)

- Freddie Mac Sellers must use the net eligible assets (as described in Chapter 5307.01) and divide by 240 to determine the amount used to establish the debt payment-to-payment income ratio.
- Maximum LTV/TLTV/HTLTV ratios is 80%.

Multiple Financed Properties

Fannie Mae

- Maximum number is 10
- Reserves based on UPB for each financed second home or investment property borrower owns and is obligated on
 - Excludes the subject and primary home
- Credit score of 720 required for 7-10 financed properties and must be submitted to DU and receive an Approve/Eligible

Freddie Mac

- Maximum number is 10
- **Reserves based on PITIA** for each financed second home or investment property borrower owns and is obligated on
 - Excludes the subject and primary home
- Credit score of 720 required for 7-10 financed properties and must be submitted to Loan Product Advisor and receive an Accept/Eligible
 - **When borrower owns between 7-10 reserves of 8 months PITIA is required for each second home/investment property where borrower is obligated on the financing**

Interested Party Contributions

Fannie Mae

- Calculates from the sales price

Freddie Mac

- **Calculates from the “value*”**
- Freddie Mac definition of value is lesser of sales price or appraised value, as of note date

Based on “value,” as defined in Section 4203.1, the maximum permitted financing concessions are as follows:

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

**Percentages Are The Same For Both Fannie Mae And Freddie Mac
They Just Calculate Them Differently**

*Effective November 1, 2018 appraised value is determined as of the note date

Appraisal Waiver Eligible & ACE Differences

Fannie Mae

- PIW now ***Appraisal Waiver** Eligible
 - One Unit, including Condos
 - Primary, second homes and investment properties
 - Purchases primary homes and second homes, up to 80% LTV/CLTV
 - Limited Cash-Out Refinance up to 90% LTV/CLTV for primary home/second homes and up to 75% LTV/CLTV for investment properties
 - **Cash-Out Refinance up to 70% LTV/CLTV for primary homes and up to 60% LTV/CLTV for second homes and investment properties**
 - Loan must receive an Approve/Eligible

**See Announcement 2018-07 for renaming of PIW and introduction of Rural High-Needs Appraisal Waiver*

Freddie Mac

- Automated Collateral Evaluation (ACE)
 - 1 unit primary or second home
 - Includes Condo 7/2018
 - **No investment properties**
 - Purchase or no Cash-Out Refi
 - LTV/TLTV/HCLTV of 80% or less
 - Must receive an Accept/Eligible if run through Loan Product Advisor

See Fannie Mae Selling Guide Or The Freddie Mac Seller/Service Guide For Complete Details On Eligibility And Ineligible Transactions

Rural High-Needs Appraisal Waiver

Fannie Mae

- Rural High-Needs Appraisal Waiver
 - Loan must receive an Approve/Eligible
 - Purchase transactions
 - One Unit principal residence (no manufactured homes) located in a designated rural high-needs area
 - Borrowers with income at or below 100% of AMI
 - LTV ratios up to 97% and CLTV's up to 105% with a Community Seconds

This appraisal waiver may be combined with other transactions types such as HomeReady

**See Announcement 2018-07 for renaming of PIW and introduction of Rural High-Needs Appraisal Waiver*

See Fannie Mae *Selling Guide* Or The Freddie Mac *Seller/Servicer Guide* For Complete Details On Eligibility And Ineligible Transactions

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Fannie Mae Form 1084 Calculator (2017-2018)
Calculator and analysis tool to help you complete Fannie Mae Form 1084.
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Freddie Mac Form 91 Calculator (2017-2018)
Quick reference guide and income analysis for Freddie Mac Form 91.
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Freddie Mac Form 92 Calculator (2017-2018)
Form 92 Rent Rental Income Calculations - Schedule E



Schedule Analysis Method (SAM) Calculator (2017-2018)
Calculate qualifying income from two rentals.
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Rental Income Calculator (2017-2018)
Assists in calculating rental income from 1031 Form 1041 Schedule E.
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Current Ratio - Liquidity Calculator (2018)
Calculate working capital liquidity against number



Quick Ratio - Liquidity Calculator (2017-2018)
Calculate all-in-one liquidity against current liabilities.
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Fannie Mae Rental Guide (Calculator 1037)
Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1037 (Principal Residence, 2-50 units Property).



Fannie Mae Rental Guide (Calculator 1039)
Worksheet for calculating qualifying rental income for Fannie Mae Form 1039 (Individual Rental Income from Property).



Fannie Mae Rental Guide (Calculator 1039)
Calculate qualifying rental income for Fannie Mae Form 1039 (Business Rental Income from Investment Property).



Fannie Mae Form 1088 Cheat Sheet (2017-2018)
Use this quick reference guide for Fannie Mae's Comparative Analysis Form (Form 1088).
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Fannie Mae Comparative Analysis Form (Form 1088)
Calculate increases/decreases in gross income, net income.



Income Calculation Worksheet
Use this form to calculate income.
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