Avoiding Common Underwriting Errors

Suggested Best Practices
March 2017
Agenda

Introduction

General Underwriting Tips
   – Resources
   – Examining and Documenting Files

Specific Errors and Recommendations
   – Capacity, Credit History, Capital, Compliance

Questions and Answers
Resources

Job Aides, Tools, Websites
For Information:

https://www.fanniemae.com/singlefamily
Fannie Mae Job Aids/FAQs

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

### Find the Training Resources You Need

- **Originating & Underwriting**
- **Pricing & Execution**
- **Delivering**
- **Servicing**
- **HFI Virtual Classroom**
- **Live Web Seminars**

### Related Training

- **Job Aids / FAQs**
  - FAQs | Property Inspection Waiver (General Questions)
  - FAQs | Special Approval Designation for Established Florida Condominium Projects
  - FAQs | Uniform Appraisal Dataset (UAD)
  - FAQs | Borrower Income Verification Policies
  - FAQs | Top Trending Questions for Lenders
  - FAQs | Top Underwriting Questions

- **Online Courses / Microlearning**
  - Appraising Rural Properties
  - Assessing Income from Self-Employment
  - How to Underwrite Loans to Non-U.S. Citizen Borrowers
  - Market Conditions Addendum Form
  - Qualifying the Borrower Video Series
  - UAD Interactive Reference Manual
  - Underwriting Manufactured Home Loans

https://www.fanniemae.com/singlefamily/originating-underwriting-training
Fannie Mae Underwriting FAQs

Answers Common Lender Income Questions

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

<table>
<thead>
<tr>
<th>Number</th>
<th>Question</th>
<th>Selling Guide and Other References</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Can Distributions on an IRS Schedule K-1 be added as income?</td>
<td>• No, distributions serve as a means to document the eligibility of business income but is not itself business income; it is the amount of business income that has been distributed to the borrower. Business income is reported elsewhere on IRS Schedule K-1.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• B3-3.2.1-08: Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 (08/25/2015)</td>
</tr>
<tr>
<td>4</td>
<td>Do 2106 expenses always need to be deducted from the borrower’s income?</td>
<td>• No. If the borrower is qualified using base, bonus, and overtime pay, and commission income is less than 25% of the borrower’s annual employment income, unreimbursed employee business expenses are not required to be analyzed or deducted from qualifying income or added to the monthly liabilities.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• B3-3.1-04: Commission Income and B3-3.2.1-03: Deductions Reported on IRS Form 2106 (06/30/2015)</td>
</tr>
</tbody>
</table>

Avoiding Common Underwriting Errors
Fannie Mae Underwriting FAQs

Answers Common Lender Income Questions

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

Underwriting FAQs

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

<table>
<thead>
<tr>
<th>#</th>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Can the amount of distributions reported on IRS Schedule K-1 be used as income to qualify the borrower?</td>
<td>No. When qualifying a self-employed borrower, the lender may use business earnings (not distributions) reported on Schedule K-1 provided there is a history of distributions consistent with the level of business earnings. Alternatively, the lender can confirm the business has adequate liquidity to support the withdrawal of earnings. See Selling Guide B3-3.2.1-01: Income or Loss Reported on IRS Form 1040 or IRS Form 1120S, Schedule K-1.</td>
</tr>
<tr>
<td>2</td>
<td>How is the minimum replacement reserve allocation for HOA budgets calculated?</td>
<td>• To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, divide the annual budgeted replacement reserve allocation by the association’s annual budgeted assessment income. • Certain types of income may be excluded from the reserve calculation. Additional information can be found in B4.2.2.02: Full Review Process.</td>
</tr>
<tr>
<td>3</td>
<td>Are lenders permitted to use a reserve study in lieu of calculating the replacement reserve?</td>
<td>Yes. The lender may use a reserve study in lieu of calculating a replacement reserve of 10% provided the following conditions are met: • The lender obtains a copy of an acceptable reserve study and retains the study and the lender’s analysis of the study in the project approval file; • The study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae’s standard reserve requirements and; • The study demonstrates that the project’s funded reserves meet or exceed the recommendation made in the study. Additional requirements for reserve studies can be found in B4.2.2.02: Full Review Process.</td>
</tr>
<tr>
<td>4</td>
<td>Do employee business expenses reported on IRS Form 2106 always need to be deducted from the borrower’s income?</td>
<td>No. If the borrower is qualified using base, bonus, and overtime pay, and commission income is less than 25% of the borrower’s annual employment income, unreimbursed employee business expenses are not required to be analyzed or deducted from qualifying income or added to the monthly liabilities. See B3-3.1-04: Commission Income and B3-3.2.1-03: Deductions Reported on IRS Form 2106.</td>
</tr>
</tbody>
</table>
For Information:

https://www.freddiemac.com
Documentation And Rental Matrix

- Assists with processing and documenting loan files
- Does not include investor overlays

http://www.freddiemac.com/learn/qr.html

Avoiding Common Underwriting Errors
Genworth Rate Express® Updated!

Let’s help someone buy a house today.

Avoiding Common Underwriting Errors
Avoiding Common Underwriting Errors
Quick Reference Guide and Webinars

Genworth Mortgage Insurance offers a comprehensive suite of training opportunities to boost your know-how, benefit your bottom line, and serve your borrowers better.

**What You Get with Training from Genworth**
- The most current information about the mortgage and mortgage insurance industries, market conditions, and regulatory environment.
- Courses delivered in a variety of ways: via classroom webinar, recorded presentation or structured industry seminar.
- Customization and delivery of select courses based on the unique needs and specifications of our customers. (Ask your Genworth Representative for more details.)
- A monthly webinar calendar with course descriptions, dates, times and links to registration.
- A course catalogue with detailed descriptions of instructor-led courses, webinars and self-directed online training.

### Webinar Schedule
Our webinar sessions address topics that are essential to mortgage professionals.

- May 2016 Webinars
- June 2016 Webinars
- Course Catalog
- Recorded Webinars

Sign up to receive the monthly training webinar calendar [here](#).

### Analysis of the Self-Employed Borrower
Income Calculation Tools and Reference Guides
Quick Reference Guide and Webinars

SELF-EMPLOYED BORROWER CALCULATORS

Use the following calculators and quick reference guides to assist you in calculating and analyzing the average monthly income of a self-employed borrower. It provides suggested guidance only and does not replace Fannie Mae/Freddie Mac instructions or applicable guidelines.

Automated Income Calculation Tools

- Fannie Mae Form 1084 Calculator (2015-2016)
- Freddie Mac Form 91 Calculator (2015-2016)
- Scheduled Analysis Method (SAM) Calculator (2015-2016)
- Rental Income Calculator (2015-2016)
- Fannie Mae Rental Guide (Calculator 1037)
- Fannie Mae Rental Guide (Calculator 1038)
- Fannie Mae Rental Guide (Calculator 1039)
- Quick Ratio – Liquidity Calculator (2015-2016)
- Current Ratio – Liquidity Calculator (2015-2016)

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

Previous versions of income calculation forms can be found at our Forms Library.
For Information:
http://mi.genworth.com
### Assets - Analyzing the Borrower’s Assets

<table>
<thead>
<tr>
<th>Decision Error</th>
<th>Underwriting Guideline</th>
<th>Corrective Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets Not Documented as Required by Program or AUS Guidelines</td>
<td>Genworth Section 1.6.10.1 Simply Underwrite Documentation (11/02/15)</td>
<td>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.</td>
</tr>
<tr>
<td>Insufficient Assets to Close and/or Pay Off Required Obligations</td>
<td>Genworth Standard Guidelines Section 5.12 Assets and Liabilities (07/11/16)</td>
<td><strong>Example 1:</strong> The bank printouts provided as documentation of assets did not contain the bank name and were not signed or dated by a bank official.</td>
</tr>
<tr>
<td>Source of Funds not Adequately or Properly Documented for Large Deposits</td>
<td></td>
<td><strong>Example 2:</strong> Insufficient verified liquid funds for closing. Cash to close per Closing Disclosure was $30,866 and verified liquid funds in file are $23,404; funds are short by $7,462.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Example 3:</strong> Missing documentation to evidence source of a large deposit in the amount of $6,500.00.</td>
</tr>
</tbody>
</table>
### Assets - Analyzing the Borrower’s Assets

<table>
<thead>
<tr>
<th>Decision Error</th>
<th>Underwriting Guideline</th>
<th>Corrective Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excessive Seller</td>
<td><strong>Agency Guidelines and Genworth Standard Guidelines Section 5.12.4 Builder/Seller</strong></td>
<td>Underwriter must ensure that AUS, Genworth and Investor guidelines have been met.</td>
</tr>
<tr>
<td>Contributions</td>
<td>Contributions (02/17/15) Follow GSE standard guidelines for treatment of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>builder/seller contributions, subject to these maximum contributions amounts:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Occupancy</strong></td>
<td><strong>LTV</strong></td>
</tr>
<tr>
<td>Primary Residence</td>
<td>90.01 – 97%</td>
<td>90%</td>
</tr>
<tr>
<td>Second Homes</td>
<td>90%</td>
<td>6%</td>
</tr>
<tr>
<td>Investment Property</td>
<td>85%</td>
<td></td>
</tr>
</tbody>
</table>

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.

**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.

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.
### Income - Analyzing the Borrower’s Income

<table>
<thead>
<tr>
<th>Decision Error</th>
<th>Underwriting Guideline</th>
<th>Corrective Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Not Documented as Required by Program and/or AUS Findings</td>
<td>Genworth Section 1.6.10.1 Simply Underwrite Documentation (11/02/15) Follow documentation required by DU and LP. Additional documentation may be warranted to support the underwriting decision. Genworth Standard Guidelines Section 5.13.11 Employment and Income Documentation (07/11/16) Our policy for manual underwriting is to follow Fannie if Fannie, Freddie if Freddie, otherwise least restrictive.</td>
<td>Underwriter must ensure that AUS, Genworth and Investor documentation requirements have been met. Example 1: Missing current paystub and W-2 from the prior year or a standard VOE as required by DU. Example 2: Expired income documents. Most recent paystub provided for borrower is dated 08/01/14. Loan closed 12/15/14 (over 120 days old).</td>
</tr>
<tr>
<td>Verbal VOE Missing, Incomplete or Incorrect</td>
<td>Genworth Section 1.6.10.1 Simply Underwrite Documentation (11/02/15) Follow Verbal VOE requirements by DU and LP Genworth Standard Guidelines Section 5.13.11 Employment and Income Documentation (07/11/16) Verbal VOE is required to be dated within 30 calendar days prior to the note date for both salaried and self-employed borrowers.</td>
<td></td>
</tr>
</tbody>
</table>

---

**Genworth MI Decision Tips Updated Every Quarter**

Avoiding Common Underwriting Errors
### Credit - Analyzing the Borrower's Credit

<table>
<thead>
<tr>
<th>Decision Error</th>
<th>Genworth Underwriting Guideline</th>
<th>Corrective Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missing Documentation for Credit Concerns Not Recognized by AUS</td>
<td>Genworth Section 1.6.1.1 DU Underwriting Findings Report and LP Feedback Certificate (11/02/15) While the minimum level of documentation for the loan is described in the Findings/Feedback report, it may not be adequate for the loan's particular circumstances. Additional documentation may be warranted to substantiate the loan decision.</td>
<td>Underwriter must ensure Genworth, AUS and Investor documentation requirements have been met.</td>
</tr>
<tr>
<td></td>
<td>Genworth Standard Guidelines Section 3 Standard Guidelines Documentation Requirements (07/11/16) Our policy for manual underwriting is to follow Fannie if Fannie, Freddie if Freddie, otherwise least restrictive.</td>
<td><strong>Example 1:</strong> Missing Closing Disclosure from sale of current property and reflecting mortgage of $227,387 is paid off. If debt is included, DTI changes from 32% to 46%. <strong>Example 2:</strong> Missing documentation to support that borrower's current residence is owned free and clear. Per 1003, property has been owned for less than one year. The credit report does not show any open mortgages, however, there are no tax/insurance statements in the file to validate or to document tax/insurance payments. <strong>Example 3:</strong> Per 1003 declarations, borrower is co-maker or endorser on a note, however, no documentation was provided to confirm whether the debt will affect the DTI.</td>
</tr>
</tbody>
</table>

---

**For More Information**

Contact us at action.center@genworth.com or 800 444.5664 for questions or to give us feedback.
Add the Expertise of Genworth to Your Support Team

Genworth Mortgage Insurance is working to make sure you have the resources you need, when you need them. These seasoned professionals will help you with Genworth’s expanding suite of mortgage insurance solutions and demonstrate why MI is a better way to buy a home in today’s market. Easy to reach. Easy to work with. Every time.

Please address questions to one of Genworth’s Expert Underwriters:

Heidi Almen  
Regional Underwriter Manager for:  
MI, MN, ND, SD & WI  
800.864.1634, ext. 3583 (Phone)  
603.433.6144 (Fax)  
heidi.almen@genworth.com

Amy Hopkins  
Regional Underwriter Manager for:  
AL, FL, GA, NC, SC & TN  
800.700.3434, ext. 3276 (Phone)  
800.923.7966 (Fax)  
amy.hopkins@genworth.com

Paul Cordier  
Regional Underwriter Manager for:  
IA, KS, MO & NE  
800.777.2754, ext. 4412 (Phone)  
800.488.0146 (Fax)  
paul.cordier@genworth.com

Robert Gruenwald  
Regional Underwriter Manager for:  
DC, CT, MD, OH, VA & WV  
800.236.2354, ext. 4129 (Phone)  
800.389.4234 (Fax)  
robert.gruenwald@genworth.com

Elizabeth Monfette  
Regional Underwriter Manager for:  
CT, MA, ME, NH, RI & VT  
800.225.2433, ext. 2170 (Phone)  
800.533.5735 (Fax)  
eлизебет.monfette@genworth.com

Pat Noon  
Regional Underwriter Manager for:  
IL & IN  
800.837.4314, ext. 2710 (Phone)  
800.444.1404 (Fax)  
pat.noon@genworth.com

Donna Mustella  
Regional Underwriter Manager for:  
CA Bay Area, HI, ID, MT, NY, OR, UT & WA  
800.366.3665, ext. 4424 (Phone)  
800.799.7937 (Fax)  
donna.mustella@genworth.com

Kitty Clark  
Regional Underwriter Manager for:  
AK, CO, LA, MI, OK & TX  
800.864.4926, ext. 4578 (Phone)  
800.846.3134 (Fax)  
kitty.clark@genworth.com

Tina Townsend-Locken  
Regional Underwriter Manager for:  
CA (except Bay Area)  
800.864.5863, ext. 2170 (Phone)  
800.346.7761 (Fax)  
tina.townsend-locken@genworth.com

Eileen Strouse  
Regional Underwriter Manager for:  
DC, NJ & PA  
800.200.4564, ext. 3162 (Phone)  
800.217.1235 (Fax)  
eileen.strouse@genworth.com

Bill Wingfield  
Regional Underwriter Manager for NY  
800.548.0854, ext. 4115 (Phone)  
800.346.7761 (Fax)  
bill.wingfield@genworth.com

Natalie Stobie  
Regional Underwriter Manager for:  
AK, AZ, NM & WY  
800.966.8063, ext. 2566 (Phone)  
800.979.7316 (Fax)  
natalie.stobie@genworth.com

To deliver a full package for underwriting, simply log on to m.i.genworth.com, locate the appropriate underwriting section and select the applicable option for your file.

We look forward to serving you, and welcome any feedback that will help us make your loan submission process as fast and easy as possible.

Genworth Regional Underwriting Managers
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

Avoiding Common Underwriting Errors
Capacity Errors

Income Calculation and Documentation, Self-Employed Borrowers
Capacity

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

Documentation
- Check guidelines for minimum documentation requirement
- Seek additional documentation if:
  - Inconsistent
  - Discrepancies
  - Possible misrepresentation
## Capacity Fannie Mae

### Fannie Mae Single Family Selling Guide

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

<table>
<thead>
<tr>
<th>Expiration Date Not Defined</th>
<th>Defined Expiration Date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender does not need to document 3–year continuance</td>
<td>Lender must document 3–year continuance</td>
</tr>
<tr>
<td>• automobile allowance</td>
<td>• alimony or child support</td>
</tr>
<tr>
<td>• base salary</td>
<td>• distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh</td>
</tr>
<tr>
<td>• bonus, overtime, commission, or tip income</td>
<td>• mortgage differential payments</td>
</tr>
<tr>
<td>• capital gains income</td>
<td>• notes receivable</td>
</tr>
<tr>
<td>• corporate retirement or pension</td>
<td>• public assistance</td>
</tr>
<tr>
<td>• mortgage credit certificates</td>
<td>• VA benefits (not including retirement or long-term disability)</td>
</tr>
<tr>
<td>• part-time job, second job, or seasonal income</td>
<td></td>
</tr>
<tr>
<td>• rental income</td>
<td></td>
</tr>
<tr>
<td>• self-employment income</td>
<td></td>
</tr>
<tr>
<td>• Social Security, VA, or other government retirement or annuity</td>
<td></td>
</tr>
</tbody>
</table>

---

Avoiding Common Underwriting Errors
Revisions to Income and Asset Qualification Requirements

Below is an outline of the structural revisions to Topic 5300 of the Single-Family Seller Servicer Guide.

Key:
- Highlighting indicates most popularly searched terms on AllRegs®

Current to New Structure Outline

5301: General requirements for all stable monthly income and asset qualification sources

- (a) Stable monthly income sources
- (b) Stable monthly asset qualification sources
- (c) General requirements for all income and asset qualification sources

The Effective Date to Previously Announced Income Qualification Requirements

We're extending the effective date for revised income qualification requirements and guidance from March 6, 2017 to July 6, 2017, giving you additional time to prepare. The extension is effective for mortgages with settlement dates on and after July 6, 2017; however, you may implement for mortgages with settlement dates on and after March 6, 2017. If you choose to implement on and after March 6, you must comply with all, not just some, of the new requirements.

http://www.freddiemac.com/singlefamily/guide/
Employed Income Types

**Primary**
- Borrower’s primary source of employed income

**Secondary**
- Second job, part-time job or multiple jobs

**Additional**
- Commissions
- Bonus
- Overtime
- Tips
- Auto allowance
- Mortgage differential
- Military entitlements
- Military Reserves & National Guard
- Unemployment with seasonal employment
Documentation Matrix

– Assists in properly underwriting and documenting the loan file for Freddie Mac Eligible loans only
– Lenders may have overlays so always check specific program requirements
– Updated February 2017

http://freddiemac.com/learn
# Income Continuance Requirements

**Chart A:** Income and earnings types typically without documentable continuance

For earnings and income types that typically do not have documentable continuance, the Seller is not required to obtain documentation to verify income continuance, absent any knowledge or information that the income is no longer being received or is likely to cease. However, when the Seller has knowledge or information that the income may not be reasonably expected to continue, the Seller must conduct additional evaluation and/or obtain documentation in order to determine if the income can be used. For example, if a Borrower has been receiving additional employed income such as overtime or bonus, but the Seller has information or documentation evidencing that the income is already discontinued or will be discontinued due to the completion of a project or termination of a bonus program, the "likely to continue" requirement would not be met and the income cannot be used for qualification purposes.

<table>
<thead>
<tr>
<th>Earnings types and income types</th>
<th>Continuance requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income types</td>
<td></td>
</tr>
<tr>
<td>Mortgage differential</td>
<td>Document duration of payments</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>(Refer to Sections 5303.3, 5305.1 and 5305.2)</td>
</tr>
<tr>
<td>Royalty payments (one-year history)</td>
<td></td>
</tr>
<tr>
<td>Trust income (fixed payment)</td>
<td></td>
</tr>
</tbody>
</table>

**Chart B:** Income types with documentable continuance

For income types with documentable continuance, the documentation requirements for each individual income type listed within Topic 5300 provide the minimum documentation required in order for the Seller to verify income continuance for at least three years.

Highlights of the requirements from the individual income types are provided for illustrative purposes only.

<table>
<thead>
<tr>
<th>Income types</th>
<th>Continuance requirement highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage differential</td>
<td>Document duration of payments</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>(Refer to Sections 5303.3, 5305.1 and 5305.2)</td>
</tr>
<tr>
<td>Royalty payments (one-year history)</td>
<td></td>
</tr>
<tr>
<td>Trust income (fixed payment)</td>
<td></td>
</tr>
</tbody>
</table>

**Chart C:** Income types that may or may not have documentable continuance

Certain income types are comprised of multiple income sources, each of which may have specific requirements with respect to continuance, whether defined or undefined. For this reason, this grouping of income types may or may not have documentable continuance. For example, if the source of retirement income is Social Security retirement benefits, no additional documentation of continuance is required; however, if the source is a retirement annuity from an insurance company, there will generally be a defined term in which case continuance must be documented.

Highlights of the requirements from the individual income topics are provided for illustrative purposes only.

<table>
<thead>
<tr>
<th>Income types</th>
<th>Continuance requirement highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement income(b) (e.g., Social Security, defined benefit pension, annuity, other similar benefits)</td>
<td>Sellers must be knowledgeable about the source of the specific income type in order to determine whether or not documentable continuance is applicable. This includes, but is not limited to, knowledge of factors with respect to whether the payments are received pursuant to a written agreement, government program, law and/or regulation, as well as the applicable eligibility criteria governing the continued receipt of the income.</td>
</tr>
<tr>
<td>Survivor and dependent benefits(b) (e.g., Social Security Survivor Benefits, Survivors' Department of Veterans Affairs (VA) benefits, other similar benefits)</td>
<td>(a) Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</td>
</tr>
<tr>
<td>Long-term disability income(a), (b) (e.g., Social Security disability benefits, VA disability compensation, worker’s compensation, private disability insurance)</td>
<td>(b) Refer to Section 5305.1 for general requirements for these income types and Section 5305.2 for topic-specific requirements for these income types.</td>
</tr>
<tr>
<td>Social Security Supplemental Security Income (SSI)(a), (b)</td>
<td></td>
</tr>
<tr>
<td>Public assistance income(b) (e.g., Temporary Assistance for Needy Families (TANF))</td>
<td></td>
</tr>
</tbody>
</table>
Capacity

Examine Paystubs Carefully
– Clear explanations for withholding items
  • Possible undisclosed debt
– Consistent information
  • Address
  • Social Security number
    – Last four digits
– Year to date income
  • Showing on paystub
  • Consistent with income
– Verification of Employment
  • Additional support
  • Clarify information
    – OT
    – Bonus
    – Commission
Freddie Mac General Requirements for Documentation To Verify Employment and Income

Standard documentation for all income types (5302)

- **YTD Paysubs**
  - Must include the employers name, date issued, pay period covered, pay period dates with earnings & complete YTD earnings

- **W-2 Forms**
  - Year End Paystub with YTD earnings or Final Military LES
  - W2 Transcripts

- **Written VOE**
  - Must include employment date, position, income types (base, hourly rate), YTD earning and most recent 1 or 2 year calendar period earnings

- **10-Day Pre-Closing Verification (PCV)**
  - Written VOE
  - VVOE
  - Military LES
  - 3rd Party employment verification service

- **Third-Party verification service providers**
Capacity

Commission - Fannie Mae

B3.3.1-04: Commission Income (06/30/2015)

This topic contains information on the verification of commission income.

Verification of Commission Income

The following table provides verification requirements for commission income:

<table>
<thead>
<tr>
<th>Verification of Commission Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>A minimum history of 2 years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.</td>
</tr>
<tr>
<td>If the commission income represents less than 25% of the borrower's total annual employment income, obtain the following documents:</td>
</tr>
<tr>
<td>- a completed Request for Verification of Employment (Form 1005 or Form 1005(S)), or</td>
</tr>
<tr>
<td>- the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.</td>
</tr>
<tr>
<td>If commission income represents 25% or more of the borrower's total annual employment income, obtain the following documents:</td>
</tr>
<tr>
<td>- copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two years; and either</td>
</tr>
<tr>
<td>- a completed Form 1005 or Form 1005(S), or</td>
</tr>
<tr>
<td>- the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.</td>
</tr>
<tr>
<td>For borrowers with commission income representing 25% or more of their total annual employment income, any unreimbursed business expenses must be subtracted from the gross commission income.</td>
</tr>
<tr>
<td>A verbal VOE is required from each employer. See B3.3.1-07, Verbal Verification of Employment, for specific requirements.</td>
</tr>
<tr>
<td>See B3.3.1-01, General Income Information, for additional information about calculating variable income.</td>
</tr>
<tr>
<td>See B3.3.1-02, Standards for Employment Documentation, for additional information about verifying employment income.</td>
</tr>
</tbody>
</table>
### Capacity Commission – Freddie Mac

<table>
<thead>
<tr>
<th>Commission income ≤25%</th>
<th>History of receipt: Two-years, consecutive</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Guide Section 5303.3(d))</td>
<td><strong>Continuance:</strong> Must be likely to continue for at least the next three years</td>
</tr>
<tr>
<td></td>
<td><strong>Calculation:</strong> Refer to Section 5303.4(b) for calculation guidance and requirements</td>
</tr>
<tr>
<td></td>
<td><strong>Documentation:</strong></td>
</tr>
<tr>
<td></td>
<td>- YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV</td>
</tr>
<tr>
<td></td>
<td><strong>OR,</strong> all of the following:</td>
</tr>
<tr>
<td></td>
<td>- Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commission income &gt;25%</th>
<th>History of receipt: Two-years, consecutive</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Guide Section 5303.3(d))</td>
<td><strong>Continuance:</strong> Must be likely to continue for at least the next three years</td>
</tr>
<tr>
<td></td>
<td><strong>Calculation:</strong> Unreimbursed employee expenses reflected on Schedule A and IRS Form 2106 (if applicable) of the Borrower's federal individual income tax returns must be deducted from the Borrower's gross commission income when calculating income. Refer to Section 5303.4(b) for calculation guidance and requirements</td>
</tr>
<tr>
<td></td>
<td><strong>Documentation:</strong></td>
</tr>
<tr>
<td></td>
<td>- Obtain all of the following:</td>
</tr>
<tr>
<td></td>
<td>- YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV</td>
</tr>
<tr>
<td></td>
<td>- Complete federal individual income tax returns covering the most recent two-year period.</td>
</tr>
<tr>
<td></td>
<td><strong>OR,</strong> all of the following:</td>
</tr>
<tr>
<td></td>
<td>- Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV</td>
</tr>
<tr>
<td></td>
<td>- Complete federal individual income tax returns covering the most recent two-year period.</td>
</tr>
</tbody>
</table>

---

**The Effective Date to Previously Announced Income Qualification Requirements**

We're extending the effective date for revised income qualification requirements and guidance from March 6, 2017 to July 6, 2017, giving you additional time to prepare. **The extension is effective for mortgages with settlement dates on and after July 6, 2017; however, you may implement for mortgages with settlement dates on and after March 6, 2017. If you choose to implement on and after March 6, you must comply with all, not just some, of the new requirements.**
Evaluating Income Types
– Predictable vs. Less Predictable
– Overtime/Bonus
  • History
    – Document the minimum history required
      • Two years is the standard
      • If less than two years, see guidelines for product/program
    – Proof of Receipt
  • Continuance
    – Likelihood documented
  • Annualize
  • Declining overtime/bonus
    – Can it be used?
      • Has it stabilized?
    – Lower Amount
– Net Rental Income from subject purchase
  • Follow investor guidelines
    – Fannie Mae allows use of market rent, if needed, to qualify
    – Freddie Mac requires executed lease and market rent from appraisal
Capacity

Show Your Income Calculation Work

– Agencies/Investors require calculations
– Self-Employed Borrowers
  • Written analysis
  • Available worksheets
    – Fannie Mae Cash Flow Analysis (Form 1084)
    – Freddie Mac Income Analysis (Form 91)
    – Schedule Analysis Method
    – Specific Lender/Investor Forms
  • Genworth calculators can be found at https://mi.genworth.com/training
Capacity: Self-Employed Borrower Income

Note on Fannie Mae’s Cash Flow Analysis

– Selling Guide Announcement 2015-09
  • New Cash Flow Analysis Form (Fannie Mae Form 1084)
  • Partnership or S-Corp funds can only be used as qualifying income if:
    – Ordinary Income on Lines 1, 2 or 3 is distributed or
    – The business has adequate liquidity to support the withdrawal

– Selling Guide Announcement 2016-05
  • Provided guidance regarding methods a lender may use to determine adequate business liquidity
    – Quick Ratio
    – Current Ratio
    – For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings

– March 24, 2015 Letter
  • Reiterated business losses do not need to be considered when a borrower owns less than 25% of a Partnership or S-Corp
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
For Partnerships and S corporations, stable monthly income may be based on the Borrower's proportionate share of income (e.g., ordinary income, guaranteed payments) carried from the Form 1065 or 1120 S, through the Schedule K-1 and onto the Borrower's federal individual income tax returns. Although cash distributions reported on the Schedule K-1 may not be used as qualifying income, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary income.

Use of business income not reported on the Borrower's federal individual income tax returns

Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the Seller's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business.

Access to business income

Documentation is not required to verify access to business income for the following:

- Sole proprietorships
- Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations
- W-2 income received from S corporations and corporations,
- Corporations, if the Borrower holds 100% ownership interest

If business income not reported on the Borrower's federal individual income tax returns is being used to qualify and none of the categories above apply, then the Seller must verify that the Borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document.

Effective for Mortgages with Freddie Mac Settlement Dates on or after July 6, 2017; but Sellers may implement for Mortgages with Settlement Dates on or after March 6, 2017
## Freddie Mac Income Documentation

<table>
<thead>
<tr>
<th>Topic</th>
<th>Documentation Requirements (Streamlined and Standard Documentation Levels)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Self-employed Income (continued)</strong></td>
</tr>
<tr>
<td><strong>Sole proprietorship</strong></td>
<td><strong>Business in existence ≥ 5 years</strong> Obtain complete signed federal individual (Form 1040) income tax return for the most recent year.</td>
</tr>
<tr>
<td></td>
<td><strong>Business in existence &lt; 5 years</strong> Obtain complete signed federal individual (Form 1040) income tax returns for the most recent two years.</td>
</tr>
<tr>
<td><strong>Partnership</strong></td>
<td><strong>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.</strong></td>
</tr>
<tr>
<td></td>
<td><strong>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.</strong></td>
</tr>
<tr>
<td><strong>S Corporation</strong></td>
<td><strong>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.</strong></td>
</tr>
<tr>
<td></td>
<td><strong>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-s(s) if applicable, for the most recent two years.</strong></td>
</tr>
<tr>
<td><strong>Corporation</strong></td>
<td><strong>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.</strong></td>
</tr>
<tr>
<td></td>
<td><strong>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.</strong></td>
</tr>
</tbody>
</table>

Effective for Mortgages with Freddie Mac Settlement Dates on or after July 6, 2017; but Sellers may implement for Mortgages with Settlement Dates on or after March 6, 2017.
Capacity

Fannie Mae Rental Income Guidelines

Rental Income Forms

• Fannie Mae Forms 1037, 1038 and 1039
  – Genworth has calculators on website
• Genworth Rental Income Calculator is an option

– Overview
  • Leases may be used if property recently acquired or acquired subsequent to the filing of tax returns
    – Additional investor guidelines may apply
  • Clarification on calculating when a Partnership or S-Corp owns the property
    – Form 1039 can be used to determine if PITIA can be excluded from the borrower’s debt ratio
    – The 1039 does not allow use of net positive cash flow as qualifying income

– Genworth offers Rental Income webinar

Include Taxes, Insurance, HOA Dues In The Monthly Payment, Even If The Investment Property Is Owned Free And Clear.
Capacity Fannie Mae

Unreimbursed Employee Business Expenses (UEBE)
– Fannie Mae Selling Guide Announcement 2015-07 (June 30, 2015)
  • Borrowers qualified using base pay, bonus, overtime or commission <25%
    – The following do not have to be analyzed or deducted or included as a liability:
      • UEBE, Union dues or Voluntary deductions
    – Even if identified on tax return or transcript
  • Borrowers with commission ≥25%, UEBE must be considered
Capacity Freddie Mac

Unreimbursed Employee Business Expenses (UEBE)
– Freddie Mac Bulletin 2016-23

• Required to be considered when identified on a tax return or tax transcript and when borrowers have commission income of 25% or more of qualifying income
• Check your specific investor policy for further details

<table>
<thead>
<tr>
<th>Commission income ≤25%</th>
<th>History of receipt: Two-years, consecutive</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Guide Section 5303.3(d))</td>
<td>Continuance: Must be likely to continue for at least the next three years</td>
</tr>
<tr>
<td>Calculation: Refer to Section 5303.4(b) for calculation guidance and requirements</td>
<td></td>
</tr>
<tr>
<td>Documentation:</td>
<td>All of the following:</td>
</tr>
<tr>
<td>▪ YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV</td>
<td></td>
</tr>
<tr>
<td>OR, all of the following:</td>
<td></td>
</tr>
<tr>
<td>▪ Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commission income &gt;25%</th>
<th>History of receipt: Two-years, consecutive</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Guide Section 5303.3(d))</td>
<td>Continuance: Must be likely to continue for at least the next three years</td>
</tr>
<tr>
<td>Calculation: Unreimbursed employee expenses reflected on Schedule A and IRS Form 2106 (if applicable) of the Borrower’s federal individual income tax returns must be deducted from the Borrower’s gross commission income when calculating income. Refer to Section 5303.4(b) for calculation guidance and requirements</td>
<td></td>
</tr>
<tr>
<td>Documentation:</td>
<td>Obtain all of the following:</td>
</tr>
<tr>
<td>▪ YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV</td>
<td></td>
</tr>
<tr>
<td>▪ Complete federal individual income tax returns covering the most recent two-year period.</td>
<td></td>
</tr>
<tr>
<td>OR, all of the following:</td>
<td></td>
</tr>
<tr>
<td>▪ Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV</td>
<td></td>
</tr>
<tr>
<td>▪ Complete federal individual income tax returns covering the most recent two-year period.</td>
<td></td>
</tr>
</tbody>
</table>
Credit History Errors
Credit Scores, Credit Reports, Liabilities
Credit History

Credit Concerns Not Always Recognized by AUS

– Obtain documentation

– Examples
  • Evidence why you are omitting a debt
  • Taxes and insurance for properties owned free and clear
  • Co-maker notes
  • Debts evidenced on paystub or disclosed during initial application
  • Paid mortgage tradeline with paid P&L noted in the comments section

– Significant derogatory events
  • Financial mismanagement
  • Extenuating circumstances?
    – Does my investor allow?
  • Re-established credit requirements met?
Credit History

Credit Scores

– Minimum score requirement?
  • Non-traditional credit borrowers (without a credit score) eligible for AUS submission with Fannie Mae’s Desktop Underwriter® 10.0
    – Two non-traditional credit references must be reviewed and one must be housing related
    – See Selling Guide §B3-5.4-03: Verification and Documentation of Alternative Credit
  • Non-traditional credit borrowers (without a credit score) will be eligible for AUS submission with Freddie Mac’s LPA May 14, 2017
    – Two Non-traditional tradelines must be verified and one must be housing related
    – See Freddie Mac Bulletin 2017-02 for more details

– Within definition
  • Genworth Simply UnderwriteSM
    – 620 minimum credit score
    – No additional requirements with valid AUS Approve/Accept Eligible recommendation
  • Genworth Standard Guidelines (Non-AUS)
    – Minimum of three (3) tradelines / credit references
      • Open or closed
      • That have been evaluated at least 12 months

– Lender, Investor, GSE requirement met?
Credit History

Credit History
– Trended Credit Data
  • Additional information can be found in Fannie Mae’s DU Version 10.0 Frequently Asked Questions
  • Credit reports used with Version 10.0 must include trended credit data
  • For now, lenders do not need to analyze trended data
  • Borrowers making minimum monthly revolving account payments may still be able to receive an Approve recommendation from DU

<table>
<thead>
<tr>
<th>Research has shown that borrowers who</th>
<th>are</th>
<th>than borrowers who</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never exceed their limit</td>
<td>75% less likely to become delinquent</td>
<td>Exceeded their credit limit in the last 12 months</td>
</tr>
<tr>
<td>Pay off their credit card every month</td>
<td>60% less likely to become delinquent</td>
<td>Only make their minimum payment each month</td>
</tr>
</tbody>
</table>
Credit History

**Disputed Information**
- AUS Loans
  - DU will provide message if impactful and further action necessary
  - LPA 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 and LPA allow using the greater of:
    – 5% of outstanding balance
    – $10

Open Ended Accounts
– Sufficient funds for repayment plus funds to close and reserves
  • Yes
    – Inclusion not required
  • No
    – Inclusion of 5% outstanding balance required for Freddie Mac
    – Cannot close loan for Fannie Mae
– Third party responsibility
  • Example: employer reimbursement
  • Document with letter from employer/responsible party
Credit History

Student Loans
  – Freddie Mac
    • The actual payment, if known, or
    • 1% of the outstanding balance otherwise
  – Fannie Mae - whether deferred, in forbearance, or in repayment (not deferred) lender must
    • Use the greater of the actual payment documented (from credit report or verified from student loan lender or documentation supplied by the borrower) or
    • 1% of the outstanding Balance
    • Lenders may use the lower fully amortizing payment if:
      – The known payment is <1% of the outstanding balance and
      – The payment will not adjust, and
      – The loan will fully amortize

Guidelines Stated Are Generic Fannie Mae/Freddie Mac Policy
Credit History

Co-Signed Loans
– Contingent liability
  • Examples
    – Co-signed note
    – Business debt guaranty
  – Include if borrower qualifies with it
    • Most conservative approach
– Situations allowing exclusion in debt ratio
  • Primary obligator pays as agreed upon
  • Twelve months’ history
– Situations requiring inclusion in debt ratio
  • Obligor’s payment not documented
  • Sufficient history not established
  • Delinquency
  • Business debt not paid from separate business account
    – Cannot be borrower’s personal account
    – Cannot be business account from which personal debts are paid
Credit History

Recent Credit Inquiries

– Definition
  • Freddie Mac: within past 120 days
  • Fannie Mae: not specific

– 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
  • Evaluate risk

Guidelines Stated Are Generic Fannie Mae/Freddie Mac Policy
Capital Errors
Assets to Close, Borrower’s Own Funds, Gift Funds, Reserves and Large Deposits
Capital

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

Underwriting Guidelines

Genworth Mortgage Insurance underwritten by: Genworth Mortgage Insurance Corporation

5.12.4 Builder/Seller Contributions (02/17/15)
Follow GSE standard guidelines for treatment of builder/seller contributions, subject to these maximum contributions amounts:

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>LTV/CLTV</th>
<th>Max Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence</td>
<td>90.01 – 97%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<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>

Let's help someone buy a house today.

Genworth
Avoiding Common Underwriting Errors

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.

<table>
<thead>
<tr>
<th>Occupancy Type</th>
<th>LTV/CLTV Ratio</th>
<th>Maximum IPC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal residence or second home</td>
<td>Greater than 90%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>75.01% – 90%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>75% or less</td>
<td>9%</td>
</tr>
<tr>
<td>Investment property</td>
<td>All CLTV ratios</td>
<td>2%</td>
</tr>
</tbody>
</table>
Based on "value" as defined in Section 4203.1, the maximum financing concessions allowed for Mortgages secured by Primary Residences and second homes are:

- 9% of value for Mortgages with loan-to-value (LTV) ratios or, if there is secondary financing, total LTV (TLTV) ratios less than or equal to 75%
- 6% of value for Mortgages with LTV ratios or, if there is secondary financing, TLTV ratios greater than 75% up to and including 90%
- 3% of value for Mortgages with LTV ratios or, if there is secondary financing, TLTV ratios greater than 90%

For Mortgages secured by Investment Properties, the maximum financing concession allowed is 2% of value regardless of the LTV ratio. The amount of any financing concessions in excess of the limitations set forth above will be considered a sales concession.

Funds paid by the property seller that are fees or costs customarily paid by the property seller according to local convention are not subject to the maximum financing concession limitations above.
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
+ Closing Costs
+ Prepaids and escrows
+ Judgments, collections and debt to be brought current, paid down or off prior to/or at closing.
+ Required Reserves

__________________________

= Total Required Funds
Capital

Assets to Close
– Cash to close
– Reserves
  • LPA/DU
    – Verify funds required
    – Best practice: only enter needed funds
  • Manual calculation
    – Additional reserves need to be calculated when:
      • Subject is a second home/investment
      • And borrower owns other second home or investment properties
      • Changing for Fannie Mae with DU 10.0

– Other funds necessary for transaction
  • Debts paid at close
  • 30-day accounts, if applicable
  • Credit card financing, if applicable
  • Collections and charge-off
    – Multi family owner occupied, second homes and investment transactions - see guidelines
  • Judgements or garnishments
Capital

Large Deposits Fannie Mae

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

Fannie Mae Single Family Selling Guide
§ B3-4.2-02, Depository Accounts (05/27/2014)

Deposits Which May Indicate Borrowed Funds Must Be Investigated.
Capital

Large Deposits Freddie Mac

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

Freddie Mac Seller/Servicer Guide

§ 5103.1 and 5501 Required funds

Deposits Which May Indicate Borrowed Funds Must Be Investigated.
Capital: Freddie Mac’s Funds To Be Verified

Understanding Loan Product Advisor’s Determination of Total Funds to Be Verified

Loan Product Advisor™ uses the information submitted to determine the amount of funds required from the borrower(s) to close a loan. In Loan Product Advisor, this is known as the Required Borrower Funds. Loan Product Advisor returns this information in the Asset Information Section of the Loan Product Advisor Feedback Certificate, along with other information that will help you determine if the borrower has sufficient eligible assets to close the loan.

This reference explains how Loan Product Advisor determines the results displayed in this section, associated feedback messages and data entry tips for obtaining the most reliable results.

Note: The Asset Information section is available in Loan Product Advisor Version 4.3 and higher.

Results Returned in the Asset Information Section

The Feedback Certificate returns the following results in the Asset Information section:

<table>
<thead>
<tr>
<th>Asset Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Eligible Assets: $41,899.94</td>
</tr>
<tr>
<td>2. Total Funds to Be Verified: $15,800.00</td>
</tr>
<tr>
<td>3. Required Borrower Funds (Cash-to-Close): $15,800.00</td>
</tr>
<tr>
<td>4. Required Reserves: $15,800.00</td>
</tr>
<tr>
<td>5. Paid Off Debt: $15,800.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Result Field</th>
<th>Brief Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Eligible Assets</td>
<td>The total amount of assets that are eligible sources of borrower funds and Reserves.</td>
</tr>
<tr>
<td>2</td>
<td>Total Funds to Be Verified</td>
<td>The minimum amount of eligible assets that must be verified. If the amount is a negative number, the borrower is receiving cash-out from the transaction. (Note: If reserves are required, refer to &quot;Reserved Required Borrower Funds (Cash-in-Close)&quot; information.)</td>
</tr>
<tr>
<td>3</td>
<td>Required Borrower Funds (Cash-to-Close)</td>
<td>The amount of funds that are paid by the borrower in connection with the transaction. If the amount is a negative number, the transaction is a cash-out.</td>
</tr>
<tr>
<td>4</td>
<td>Required Reserves</td>
<td>The minimum amount of remaining eligible assets required after closing. (Note: The Assets and Reserves section in the feedback messages will reflect any additional required reserves.)</td>
</tr>
<tr>
<td>5</td>
<td>Paid Off Debt</td>
<td>Liabilities with a Paid Off indicator of &quot;Yes&quot;, with the exception of mortgages secured by the subject property.</td>
</tr>
</tbody>
</table>

* Loan Product Advisor does not determine Required Borrower Funds for FHA or VA Mortgages and, as a result, suppresses the Asset Information section.

Vertical revision bars "*" are used in the margin to highlight new requirements or significant changes.

July 26, 2016 www.FreddieMac.com/team/
Freddie Mac: Funds To Be Verified

Asset Information

<table>
<thead>
<tr>
<th>#</th>
<th>Field</th>
<th>Brief Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Eligible Assets</td>
<td>The total amount of assets that are eligible sources of borrower funds and Reserves.</td>
</tr>
<tr>
<td>2</td>
<td>Total Funds to be Verified</td>
<td>The minimum amount of eligible assets that must be verified.</td>
</tr>
<tr>
<td>3</td>
<td>Required Borrower Funds (Cash-to-Close)</td>
<td>The amount of funds that are paid by the borrower in connection with the transaction. (<em>Note:</em> If this value is negative, $0.00 displays. This occurs, for example, when the borrower is receiving cash out from the transaction.)</td>
</tr>
<tr>
<td>4</td>
<td>Required Reserves</td>
<td>The minimum amount of remaining eligible assets required after closing. (<em>Note:</em> The Assets and Reserves section in the feedback messages will reflect any additional required reserves.)</td>
</tr>
<tr>
<td>5</td>
<td>Paid Off Debts</td>
<td>This field displays only on purchase transactions and includes liabilities with a Paid Off indicator of “Yes”. It does not include mortgages on properties indicated as pending sale or sold on the Schedule of Real Estate Owned.</td>
</tr>
</tbody>
</table>
Additional Amounts on Top of LPA Feedback

Note: In certain instances, Loan Product Advisor is not able to identify all of the necessary information to determine the amount of Total Funds to be Verified. For the scenarios below, you must add the additional funds indicated to the Total Funds to be Verified amount on the Feedback Certificate. All additional funds must be verified.

- When the Borrower is paying down a debt, add the amount of funds needed to pay down the debt to the Total Funds to be Verified amount.

- When the mortgage is secured by a second home or investment property and the borrower owns or is obligated on other financed second homes and/or 1- to 4-unit investment properties, add two months’ reserves for each additional second home and/or 1- to 4-unit investment property to the Total Funds to be Verified amount.

- When discount points are paid by someone other than the borrower, add the amount of non-borrower paid discount points to the Total Funds to be Verified amount. (Reminder: Discount points paid by the borrower are entered in the Discount field in the Details of Transaction section.)

- When a property on the Schedule of Real Estate Owned is pending sale or sold and sale of the property requires additional funds from the Borrower, the Seller must document that the Borrower has sufficient funds to complete the sale of the property on the Schedule of Real Estate Owned in addition to the Total Funds to be Verified amount.
Capital

Earnest Money
– Documentation
  • From eligible source
  • Correct documentation per guidelines
– Make sure funds are not counted twice
  • Back out of bank account balance if necessary, or do NOT give credit for deposit check
Capital

Borrower’s Own Funds
– Fannie Mae follows for Conforming and High-Balance 1-unit O/O loans including manufactured homes

Selling Guide
Published January 31, 2017
Guide Table of Contents

B3-4.3-04: Personal Gifts (09/29/2015)
This topic contains information on personal gifts, including:
- Gift Funds
- Acceptable Donors
- Minimum Borrower Contribution Requirements
- Documentation Requirements
- Verifying Donor Availability of Funds and Transfer of Gift Funds

Gift Funds
A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements below. Gifts are not allowed on an investment property.

Acceptable Donors
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.

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

Borrower’s Own Funds

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

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

5501.1: Required Borrower Funds (03/02/16)

Borrower Funds are all funds paid by the Borrower in connection with the property purchase or Mortgage financing. Borrower Funds must be from Borrower Personal Funds or Other Borrower Funds as outlined in this chapter.

The Seller must verify sufficient Borrower Funds, including:

• Down payment (including an earnest money deposit)
• Prepaids/Escrow items, if paid by the Borrower
• Closing Costs, if paid by the Borrower
• Financing Costs, if paid by the Borrower
### Gift Funds: Fannie Mae

**Underwriting FAQs**

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

<table>
<thead>
<tr>
<th>#</th>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Can gift funds come from trust or estate accounts?</td>
<td>No. Gifts must come from individuals related to the borrower. Trusts and estates do not meet the gift donor requirements. See <a href="https://www.fanniemae.com/content/faq/underwriting-faqs.pdf">B3-4.3-04: Personal Gifts</a></td>
</tr>
</tbody>
</table>
Gift Funds: Documentation Requirement

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

– Specifies the dollar amount of the gift;
– Specifies the date the funds were transferred;
– Includes the donor’s statement that no repayment is expected; and
– Indicates the donor’s name, address, telephone number, and relationship to the borrower

Gift Funds: Acceptable Donor

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

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
Gift Funds

Gift Funds
– Enter into AUS correctly
– Must come from acceptable source
– Document correctly
– Verify
  • Donor availability
  • Funds transfer
– Other restrictions
  • Investment properties, gifts are not allowed
Borrowers with Multiple Financed Properties – Reserve Requirements

– DU determines the reserves required for the other residential financed properties (excluding the borrower’s principal residence and the subject property)

– The reserve amount is determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for all *mortgages and HELOC’s disclosed on the application

– The percentage is based on the number of financed properties the borrower is obligated on

**RESERVES CALCULATION TABLE**

<table>
<thead>
<tr>
<th>Number of Financed Properties</th>
<th>Reserve Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 to 6 financed properties</td>
<td>The % of UPB is based on the number of <strong>financed properties</strong>:</td>
</tr>
<tr>
<td>(Manually Underwritten and Casefiles Underwritten through DU)</td>
<td>• If 2-4 financed properties, reserves = 2% of aggregated mortgage UPBs for all other* financed properties.</td>
</tr>
<tr>
<td></td>
<td>• If 5-6 financed properties, reserves = 4% of aggregated mortgage UPBs for all other* financed properties.</td>
</tr>
<tr>
<td></td>
<td>*Other includes all financed properties which are not the subject property or the borrower’s principal residence.</td>
</tr>
<tr>
<td>7 to 10 financed properties</td>
<td>The % of UPB is based on the number of <strong>financed properties</strong>:</td>
</tr>
<tr>
<td>(DU Casefiles Only)</td>
<td>• If 7-10 financed properties, reserves = 6% of aggregated mortgage UPBs for all other* financed properties.</td>
</tr>
<tr>
<td></td>
<td>*Other includes all financed properties which are not the subject property or the borrower’s principal residence.</td>
</tr>
</tbody>
</table>

*If marked paid by close, omit or if associated with subject property, not included.
### Capital: Fannie Mae

#### Borrowers with Multiple Financed Properties

**Examples of Reserves Calculations**

The following tables contain examples of reserves calculations for borrowers with multiple financed properties.

**Example 1: Three Financed Properties**

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>Outstanding UPB</th>
<th>Monthly PITIA</th>
<th>Reserves Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject: Second Home</td>
<td>$78,750</td>
<td>$776</td>
<td>2 Months PITIA = $1,552</td>
</tr>
<tr>
<td>Principal</td>
<td>$0</td>
<td>$179</td>
<td>N/A $0</td>
</tr>
<tr>
<td>Investor</td>
<td>$87,550</td>
<td>$787</td>
<td>$230,050 x 2% = $4,601</td>
</tr>
<tr>
<td>Investor</td>
<td>$142,500</td>
<td>$905</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$230,050</td>
<td></td>
<td>Total = $6,153</td>
</tr>
</tbody>
</table>

**Example 2: Six Financed Properties**

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>Outstanding UPB</th>
<th>Monthly PITIA</th>
<th>Reserves Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject: Investor</td>
<td>$78,750</td>
<td>$776</td>
<td>6 Months PITIA = $4,656</td>
</tr>
<tr>
<td>Principal</td>
<td>$133,000</td>
<td>$946</td>
<td>N/A $0</td>
</tr>
<tr>
<td>Investor</td>
<td>$87,550</td>
<td>$787</td>
<td>$346,030 x 4% = $13,801</td>
</tr>
<tr>
<td>Investor</td>
<td>$142,500</td>
<td>$905</td>
<td></td>
</tr>
<tr>
<td>Investor</td>
<td>$84,950</td>
<td>$722</td>
<td></td>
</tr>
<tr>
<td>Investor</td>
<td>$30,030</td>
<td>$412</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$345,030</td>
<td></td>
<td>Total = $18,457</td>
</tr>
</tbody>
</table>
**Manual Reserves Overlay For Freddie Mac**

**Minimum required reserves**

For Loan Product Advisor℠ Mortgages, the Seller must verify all reserves required by Loan Product Advisor, as stated on the Feedback Certificate, except as stated below for Mortgages secured by second homes and Investment Properties.

For Manually Underwritten Mortgages, the verified reserves must equal or exceed the following reserves requirements:

<table>
<thead>
<tr>
<th>Subject property</th>
<th>Required reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence - 1-unit</td>
<td>None</td>
</tr>
<tr>
<td>Primary Residence - 2- to 4-unit</td>
<td>Six months for the subject property</td>
</tr>
<tr>
<td>Second home</td>
<td>Two months for the subject property</td>
</tr>
<tr>
<td>Investment Property</td>
<td>Six months for the subject property</td>
</tr>
</tbody>
</table>

Loan Product Advisor and Manually Underwritten Mortgages secured by second homes and Investment Properties require the following additional reserves:

<table>
<thead>
<tr>
<th>Subject property</th>
<th>Additional required reserves</th>
</tr>
</thead>
</table>
| Second home or Investment Property | Two months of the monthly payment amount (as described in Section 5501.2(a)) on each additional second home and/or 1- to 4-unit Investment Property:  
  • In which the Borrower has an ownership interest or on which the Borrower is obligated, and  
  • That is financed |

<table>
<thead>
<tr>
<th>Topic</th>
<th>Streamlined Accept Documentation</th>
<th>Standard Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves (Guide Sections 5501.2 and 5501.3)</td>
<td>See Understanding Loan Product Advisors Determination of Reserve Requirements (<a href="http://www.FreddieMac.com/learn/pdfs/uw/reserves.pdf">http://www.FreddieMac.com/learn/pdfs/uw/reserves.pdf</a>).</td>
<td></td>
</tr>
</tbody>
</table>
Avoiding Common Underwriting Errors

Implementation Of Asset Changes Effective For Loans With Settlement Dates of July 6, 2017 or After; LPA Updated March 6, 2017
Bullet 2017-02

TO: Freddie Mac Sellers

March 16, 2017 | 2017-2

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

Loan Product Advisor® enhancements

- The assessment of Mortgages through Loan Pro Credit Score – June 26, 2017 (New)
- Revisions to our requirements for Mortgages with Credit Score – May 16, 2017

Selling System® enhancements

- Functionality in the Selling System for pricing – April 24, 2017 (New)

SECOND HOME AND INVESTMENT PROPERTY MORTGAGES

We are revising the requirement that when the subject property is a second home or Investment Property, each Borrower, individually and all Borrowers collectively, must not own and/or be obligated on (e.g., Notes, land contracts and/or any other debt or obligation) more than six 1- to 4-unit financed properties.

Effective immediately, when determining the total number of financed properties, Sellers do not need to consider financed properties that a Borrower owns, but is not obligated on. As a related change, Sellers will no longer be required to verify reserves for each additional financed second home and/or 1- to 4-unit Investment Property that a Borrower owns, but is not obligated on.

We have also revised the instructions for ULDD Data Point, Total Mortgaged Properties Count (Sort ID 244), to require that Sellers only need to deliver the total number of properties that the Borrower is obligated on.

These changes will help to streamline the origination process and provide greater access to credit for homebuyers.

Guide impacts: Sections 4201.15, 4201.16, 5501.2 and 6302.5

Effective Immediately
Compliance
Completeness
Compliance

Ensure Completeness

– Two year history
  • Employment
  • Residence

– Occupancy
  • Make sense
  • Consistent throughout loan file

– All 1003 copies
  • Signed original/scratch
  • Final

– AUS updated with final data
  • Within tolerances, if permitted

– Proofread
  • All information provided
  • All documents in file
Questions?
Thank You!

GENWORTH RESOURCES

ActionCenter®: 800 444.5664

Your Local Genworth Underwriting Manager

Your Genworth Account Executive or Manager
Legal Disclaimer

Genworth Mortgage Insurance is happy to provide you with these training materials. While we strive for accuracy, we also know that any discussion of laws and their application to particular facts is subject to individual interpretation, change, and other uncertainties. Our training is not intended as legal advice, and is not a substitute for advice of counsel. You should always check with your own legal advisors for interpretations of legal and compliance principles applicable to your business.

GENWORTH EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THESE MATERIALS AND THE RELATED TRAINING. IN NO EVENT SHALL GENWORTH BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES OF ANY KIND WHATSOEVER WITH RESPECT TO THE TRAINING AND THE MATERIALS.

Collateral Underwriter® or CUTM and Desktop Underwriter® or DU are registered Trademarks of Fannie Mae
Home Value Explorer (HVE) is a registered trademark of Freddie Mac
Loan Product AdvisorSM and Loan Collateral AdvisorSM are registered Service Marks of Freddie Mac
ActionCenter® and Rate Express® are registered trademarks of Genworth Mortgage Insurance
Simply UnderwriteSM is a service mark of Genworth Mortgage Insurance
MPF Xtra® and MPF Traditional® are registered trademarks of the Federal Home Loan Bank