Avoiding Common Underwriting Errors

Suggested Best Practices
May 2018
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

Originating & Underwriting Training

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

Find the Training Resources You Need

<table>
<thead>
<tr>
<th>General Underwriting</th>
<th>Mortgage Products</th>
<th>Loan Quality</th>
<th>Technology Solutions</th>
</tr>
</thead>
</table>

Training focusing on underwriting the borrower and the property.

**Job Aids / FAQs**

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

**Online Courses / Microlearning**

- Appraising Rural Properties
- Assessing Income from Self-Employment
- How to Underwrite Loans to Non-U.S. Citizen Borrowers
- Market Conditions Addendum Form
- Qualifying the Borrower Video Series
- UAD Interactive Reference Manual
- 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>
Fannie Mae Underwriting FAQs

Answers Common Lender Income Questions

- [https://www.fanniemae.com/singlefamily/originating-underwriting-training](https://www.fanniemae.com/singlefamily/originating-underwriting-training)

<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 B3-3.2.1-06, Income or Loss Reported on IRS Form 1040 or IRS Form 1120S, Schedule K-1.</td>
</tr>
</tbody>
</table>
| 2  | How is the minimum replacement reserve allocation for HOA budgets calculated? | • To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, divide the annual budgeted replacement reserve allocation by the association’s annual budgeted assessment income.  
• Certain types of income may be excluded from the reserve calculation. Additional information can be found in B4.2.2(D) Full Review Process. |
| 3  | Are lenders permitted to use a reserve study in lieu of calculating the replacement reserve? | Yes. The lender may use a reserve study in lieu of calculating a replacement reserve of 10% provided the following conditions are met:  
• 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(D): Full Review Process. |
| 4  | Do employee business expenses reported on IRS Form 2106 always need to be deducted from the borrower’s income? | No. If the borrower is qualified using base, bonus, and overtime pay, and commission income is less than 25% of the borrower’s annual employment income, unreimbursed employee business expenses are not required to be analyzed or deducted from qualifying income or added to the monthly liabilities. See B3-3.1-04: Commission Income and B3-3.7-103: Deductions Reported on IRS Form 2106. |
For Information:

https://www.freddiemac.com
Documentation Matrix

- Updated April 2017
- Note Different Effective dates
- Assists with processing and documenting loan files
- Be mindful of Product Overlays

### INCOME AND EMPLOYMENT DOCUMENTATION

The analysis, verification, calculation and determination of the stable monthly income amount is integral to the overall qualification of the borrower and determination of the borrower’s capacity to repay the mortgage and other mortgage obligations. Refer to Guide Topic 5300 for complete requirements and guidance for the analysis, stability, history, continued employment and documentation for all stable monthly income and asset qualification sources.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Documentation Requirements (Streamlined and Standard Documentation Levels)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General requirements for stable monthly income (Guide Section 5301.1)</td>
</tr>
<tr>
<td></td>
<td>Employee income documentation and verification requirements</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(example table)

Note: Vertical revision bars “|” are also used in the significant changes.
Genworth Underwriting Guidelines
## Simply Underwrite℠ Eligibility Recap

Simply Underwrite℠ applies to eligible loans with a Desktop Underwriter® recommendation or Loan Product Advisor℠ risk classification. Contact your sales representative or the ActionCenter℠ at 800 444 5564 with any questions.

### Effective March 19, 2018

<table>
<thead>
<tr>
<th>Primary Residence – Purchase, Rate/Term Refinance and Construction-to-Permanent³</th>
<th>Max LTV</th>
<th>Max Loan Amount</th>
<th>Min Credit Score</th>
<th>Max DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single family (detached &amp; attached), Condominiums, Cooperative, Manufactured Housing¹</td>
<td>97%¹</td>
<td>Agency Base Conforming</td>
<td>620</td>
<td>Per DU &amp; Loan Product Advisor (DTI &gt; 45% requires a minimum credit score of 700)</td>
</tr>
<tr>
<td>2 units</td>
<td>95%</td>
<td>Agency Base Conforming</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 units²</td>
<td>95%</td>
<td>Agency Base Conforming</td>
<td>720</td>
<td>45%</td>
</tr>
<tr>
<td>4 units²</td>
<td>95%</td>
<td>Agency Base Conforming</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Second Home – Purchase, Rate/Term Refinance and Construction-to-Permanent²</th>
<th>Max LTV</th>
<th>Max Loan Amount</th>
<th>Min Credit Score</th>
<th>Max DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single family (detached &amp; attached), Condominiums, Cooperative, Manufactured Housing¹</td>
<td>90%</td>
<td>FHA High Cost</td>
<td>620</td>
<td>Per DU &amp; Loan Product Advisor (DTI &gt; 45% requires a minimum credit score of 700)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Property – Purchase and Rate/Term Refinance</th>
<th>Max LTV</th>
<th>Max Loan Amount</th>
<th>Min Credit Score</th>
<th>Max DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single family (detached &amp; attached), Condominiums</td>
<td>85%</td>
<td>FHA High Cost</td>
<td>700</td>
<td>45%</td>
</tr>
</tbody>
</table>

¹ Manufactured Housing is ineligible for 97% LTV.
² Maximum loan amount in AK & HI is $1,600,000 for 3 – 4 units.
³ Construction-to-Permanent is ineligible for property types other than single family (detached) or Manufactured Housing.

### Eligibility

In addition to Approve/Eligible and Accept/Eligible loans, the following GSE AUS recommendations or risk classifications may be eligible for Simply Underwrite:
- Approve/ineligible for HomePath® Property
- See Sections 4.3.1 and 6.1 in our Underwriting Guidelines for complete details

### Exclusions from Simply Underwrite

- DU Refi Plus℠ & Freddie Mac Refinance – Open Access℠
- Lender-negotiated guideline variances, waivers or programs unless approved by Genworth. However, Fannie Mae’s published HomeStyle® Renovation Mortgages and cooperative share mortgages are eligible for Simply Underwrite.

### Other Underwriting Requirements

- Genworth does not insure the following: Properties located in Guam, Puerto Rico and Virgin Islands
- Follow Sections 4.3.1 and 6.1 Simply Underwrite requirements in our Underwriting Guidelines
- Property Inspection Waivers (PIWs) are eligible when offered by DU for rate/term refinance transactions receiving a DU Approve/Eligible recommendation

### Note

Desktop Underwriter® is a trademark of Fannie Mae. This summary is intended for informational purposes only. For current underwriting guidelines, please refer to our ActionCenter℠.

Given the recent increase in loans with DTIs greater than 45% combined with lower credit profiles, we have re-evaluated our underwriting requirements. Effective with mortgage insurance applications received on or after March 19, 2018, a representative credit score of 700 or greater will be required for loans with DTIs exceeding 45%.

**Announcement 2018-1**
Delegated Underwriting
MI Decision Tips

1st Quarter 2018

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

### 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 4.1 Simply Underwrite Eligibility</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>Source of Funds not Adequately or Properly Documented for Large Deposits</td>
<td>Genworth Section 7.10 Assets and Liabilities</td>
<td></td>
</tr>
<tr>
<td>Insufficient Assets to Close and/or Pay Off Required Obligations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Example 1: Insufficient verified liquid funds for closing. Cash to close per Closing Disclosure was $30866 and verified liquid funds in file are $23404; funds are short by $7462.

Example 2: Missing documentation to evidence source of a large deposit in the amount of $6,500.00.

Example 3: Gift not disclosed in AUS.

Example 4: Missing all pages to bank statements or missing second month statement if required.
## Assets – Analyzing the Borrower’s Assets

<table>
<thead>
<tr>
<th>Decision Error</th>
<th>Underwriting Guideline</th>
<th>Corrective Action</th>
</tr>
</thead>
</table>
| Excessive Seller Contributions | **Section 5.30 Builder/Seller Contributions**  
Follow GSE standard guidelines for treatment of builder/seller contributions, subject to these maximum contributions amounts:  
*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. | Underwriter must ensure that AUS, Genworth and Investor guidelines have been met. |

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>LTV</th>
<th>Max Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence</td>
<td>90.01 – 97%</td>
<td>3%</td>
</tr>
<tr>
<td>Second Homes</td>
<td>90%</td>
<td>6%</td>
</tr>
<tr>
<td>Investment Property</td>
<td>85%</td>
<td>2%</td>
</tr>
</tbody>
</table>

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.
<table>
<thead>
<tr>
<th>Income - Analyzing the Borrower’s Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decision Error</strong></td>
</tr>
<tr>
<td>Verbal VOE Missing, Incomplete or Incorrect</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Genworth Standard Guidelines Documentation</td>
</tr>
</tbody>
</table>
Genworth Rate Express®

Avoiding Common Underwriting Errors
Training Tools and Information
Avoiding Common Underwriting Errors

Course Catalog

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

Self-Employed Borrower Tools

We offer a valuable collection of downloadable calculators and reference guides to help you with calculating and analyzing the average monthly income of self-employed borrowers. They provide suggested guidance only and do not replace Fannie Mae or Freddie Mac instructions or applicable guidelines.

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

<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>

**Fannie Mae Single Family Selling Guide**

§B3-3.1-01, Employment and Other Sources of Income
5301.1: General requirements for all stable monthly income (07/06/17)

(a) Overview: Analysis of stable monthly income amount

The analysis, verification, calculation and determination of the stable monthly income amount is integral to the overall qualification of the Mortgage and other monthly obligations.

Topic 5300 provides requirements and guidance for the determination of stable monthly income. However, the Seller may need to determine stable monthly income due to industry employment trends, various economic conditions and other factors (e.g., certain employment fields).

(b) General requirements for all stable monthly income

Stable monthly income is the Borrower's verified gross monthly income from all acceptable and verifiable sources that are used to qualify the Borrower, the Seller must determine that both the source and the amount of the income are

Regardless of the underwriting path, the income qualification sources used to qualify the Borrower (whether or not specifically addressed in Topic 5300) and the documentation in the Mortgage file must be evaluated for stable monthly income qualification requirements and must meet the requirements of Topic 5300. Income qualification sources that do not meet these requirements or are not calculated correctly may invalidate the Loan Product Advisor Risk Class on the Feedback Certificate.

The Seller must include a written analysis of the income qualification sources and amount in the Mortgage file. In addition, all documentation used to establish stable monthly income must be retained in the Mortgage file.

Effective Loans With Settlement Dates On Or After July 6, 2017
Chapter 5301.1 General requirements for all stable monthly income

(c) Income stability and history requirements

Income types with pre-determined fixed payment amounts that occur with regular frequency and/or defined and documentable terms lend support to income stability and the analysis of historical receipt is typically not necessary. These characteristics are often seen with income governed by agreements with employers (e.g., mortgage differentials), government programs and/or annuity payments from employer retirement plans or insurance companies.

Income types that fluctuate typically must be viewed from the perspective of historical earnings. The Seller should consider the length of history, degree of fluctuation and/or irregularity of the income. When evaluating stability of income based upon historical receipt (e.g., fluctuating income), additional layering of risk may be present depending upon the degree of income volatility. As a result, the Seller may determine additional documentation (e.g., an additional year of earnings history) is necessary to support income stability.

In most instances, a two-year history of receiving income is required in order for the income to be considered stable and used for qualifying. When the Borrower has less than a two-year history of receiving income, the Seller must provide a written analysis to justify the determination that the income that is used to qualify the Borrower is stable. While the sources of income may vary, the Borrower should have a consistent level of income despite changes in the sources of income.

Continuance

For all income used to qualify the Borrower, the Seller must determine whether the income is reasonably expected to continue. This determination must focus on the Borrower’s past employment/self-employment history, history of receipt of other income and the probability of continued consistent receipt of the income used to qualify the Borrower. At a minimum, the Seller must base the determination on the requirements of Topic 5300, and any other documentation contained in the Mortgage file.

The Seller may consider all income for qualifying the Borrower, provided the Seller does not have knowledge, information or documentation that contradicts a reasonable expectation of continuance or probability of consistent receipt over at least the next three years.

Continuance of income is categorized as follows:

• Income and earnings types typically without documentable continuance (likely to continue) (Chart A)
• Income types with documentable continuance (Chart B)
• Income types that may or may not have documentable continuance, depending upon the source (e.g., government program, private insurer) and terms of the specific income type (e.g., retirement, long-term disability) (Chart C)
## 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 employment 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.

**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></td>
</tr>
<tr>
<td>Royalty payments (one-year history)</td>
<td>(Refer to Sections 5301.3, 5305.1 and 5305.2)</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)})</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>(e.g., Social Security, defined benefit pension, annuity, 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>Survivor and dependent benefits(^{(b)})</td>
<td></td>
</tr>
<tr>
<td>(e.g., Social Security Survivor Benefits, Survivors' Department of Veterans Affairs (VA) benefits, other similar benefits)</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>Long-term disability income(^{(a)},(^{(b)})</td>
<td></td>
</tr>
<tr>
<td>(e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)</td>
<td></td>
</tr>
<tr>
<td>Social Security Supplemental Security Income (SSSI)(^{(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>
Freddie Mac Documentation Matrix

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 April 2017

http://freddiemac.com/learn
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
– Stale dated?
– Year End paystub for borrowers with OT, bonus, commission incomes or
– Verification of Employment
  • Additional support
  • Clarify information
    – OT
    – Bonus
    – Commission
Verification of Commission Income

The following table provides verification requirements for commission income:

<table>
<thead>
<tr>
<th>Requirement</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 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 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

<table>
<thead>
<tr>
<th>4</th>
<th>Do 2106 expenses always need to be deducted from the borrower's income?</th>
</tr>
</thead>
<tbody>
<tr>
<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>
<td></td>
</tr>
<tr>
<td>• B3-3.1-04: Commission Income and [B3-3.2.1-03: Deductions Reported on IRS Form 2106 (06/30/2015)](B3-3.2.1-03: Deductions Reported on IRS Form 2106 (06/30/2015))</td>
<td></td>
</tr>
</tbody>
</table>

Avoiding Common Underwriting Errors
## Capacity

**Commission - Freddie Mac**

<table>
<thead>
<tr>
<th>Income type</th>
<th>Stable monthly income requirements</th>
<th>Documentation requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission income less than 25% of the income from the commissioned employment</td>
<td><strong>History of receipt:</strong> Two-years, consecutive&lt;br&gt;&lt;br&gt;<strong>Continuance:</strong> Must be likely to continue for at least the next three years&lt;br&gt;&lt;br&gt;<strong>Calculation:</strong> Refer to <a href="#">Section 5303.4(b)</a> for calculation guidance and requirements</td>
<td><strong>All of the following:</strong>&lt;br&gt;• YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years and a 10-day PCV (refer to <a href="#">Section 5302.2(d)</a>)&lt;br&gt;&lt;br&gt;<strong>Or, all of the following:</strong>&lt;br&gt;• Written verification of employment (VOE) documenting all YTD earnings and the earnings for the most recent two calendar years and a 10-day PCV</td>
</tr>
<tr>
<td>Commission income greater than or equal to 25% of the income from the commissioned employment</td>
<td><strong>History of receipt:</strong> Two years, consecutive&lt;br&gt;&lt;br&gt;<strong>Continuance:</strong> Must be likely to continue for at least the next three years&lt;br&gt;&lt;br&gt;<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 <a href="#">Section 5303.4(b)</a> for calculation guidance and requirements.</td>
<td><strong>All of the following:</strong>&lt;br&gt;• YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV&lt;br&gt;&lt;br&gt;• Complete federal individual income tax returns covering the most recent two-year period&lt;br&gt;&lt;br&gt;<strong>Or, all of the following:</strong>&lt;br&gt;• Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV&lt;br&gt;• Complete federal individual income tax returns covering the most recent two-year period</td>
</tr>
</tbody>
</table>
## Capacity Freddie Mac

### Unreimbursed Employee Business Expenses (UEBE)

- **Commission Income Policy**
  - Prompted to review 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</th>
<th>History of receipt: Two years, consecutive</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;25% (Guide Section 5303.3(d))</td>
<td>Continuance: Must be likely to continue for at least the next three years</td>
</tr>
<tr>
<td></td>
<td>Calculation: Refer to Section 5303.4(b) for calculation guidance and requirements</td>
</tr>
<tr>
<td></td>
<td>Documentation: All 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>OR, all 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</th>
<th>History of receipt: Two years, consecutive</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥25% (Guide Section 5303.3(d))</td>
<td>Continuance: Must be likely to continue for at least the next three years</td>
</tr>
<tr>
<td></td>
<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>
</tr>
<tr>
<td></td>
<td>Documentation: Obtain all 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>OR, all 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>
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://new.mi.genworth.com/training
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

https://www.fanniemae.com/content/guide_form/1088.pdf
Capacity: Self-Employed Borrower Income

Freddie Mac Income Calculations

– Bulletin 2016-19
  • Revised and clarified self-employed income requirements for Freddie Mac
  • Distributions are not required for partnerships and S corporations but business must be capable of paying out profit and generating future earnings

– Updated Form 91 Income Calculations Form
  • Genworth posted updated Form 91 at https://new.mi.Genworth.com

– Revised documentation requirements
  • Two years tax returns for businesses in existence less than five years
  • One year tax return for businesses in existence more than five years
  • Verification of existence of the business required and must be completed prior to delivery date but not more than 120 days prior to the Note date.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Documentation Requirements (Streamlined and Standard Documentation Levels)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self-employed Income (continued)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Sole proprietorship</strong></td>
<td>Obtain complete signed federal individual (Form 1040) income tax return for the most recent year.</td>
</tr>
<tr>
<td><strong>Business in existence ≥ 5 years</strong></td>
<td>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>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.</td>
</tr>
<tr>
<td><strong>Business in existence &lt; 5 years</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>S Corporation</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Business in existence ≥ 5 years</strong></td>
<td>Verify the number of years that the business has been in existence and obtain complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent two years.</td>
</tr>
<tr>
<td><strong>Corporation</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Business in existence &lt; 5 years</strong></td>
<td>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.</td>
</tr>
</tbody>
</table>

Refer to Chapter 5304 for complete requirements and guidance.
Capacity

Rental Income Guidelines And Rental Income Forms

• Fannie Mae Forms 1037, 1038 and 1039
  – Genworth has calculators on website
• Genworth Rental Income Calculator is an option
• Freddie Mac Update - Rental Form 92
  – Genworth has posted Form 92 calculator on our website

– Overview
  • Leases may be used if property recently acquired or acquired subsequent to the filing of tax returns but additional guidelines may apply
  • Fannie Mae: 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 a Rental Income webinar which includes recent Freddie Mac Bulletin 2017-12 changes which have been delayed until November 2018 but
    • Lenders may choose to implement all or NONE of the changes prior November so, check what is each of my investors policy…what are they following

Include Taxes, Insurance, HOA Dues In The Monthly Payment, Even If The Investment Property Is Owned Free And Clear.
Credit History Errors
Credit Scores, Credit Reports, Liabilities
Credit History

Credit Concerns Not Always Recognized by AUS or Common Errors

– Examples of Errors
  • No evidence in file why you are *omitting a debt
  • Taxes and insurance for properties owned free and clear omitted
  • Co-maker notes?
  • Debts evidenced on paystub or disclosed during initial application
  • Paid mortgage tradeline with paid P&L noted in the comments section with no explanation or documentation

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

See Fannie Mae DU Version 10.2 June Updates-Bankruptcy and Mortgage Delinquency Assessment updates. Effective date June 23, 2018

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

Credit Scores

– Minimum score requirement?
  • Non-traditional credit borrowers (without a credit score) eligible for AUS submission with Fannie Mae’s Desktop Underwriter® 10.0
    – Two non-traditional credit references must be reviewed and one must be housing related
    – See Selling Guide §B3-5.4-03: Verification and Documentation of Alternative Credit

  • Non-traditional credit borrowers (without a credit score) eligible for AUS submission with Freddie Mac’s Loan Product Advisor May 14, 2017
    – Two Non-traditional tradelines must be verified and one must be housing related
    – See Freddie Mac Bulletin 2017-02 for more details

– Within definition
  • Genworth Simply UnderwriteSM
    – 620 minimum credit score
    – 700 minimum credit score with DTI ≥45
    – 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 card 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 provides messaging if impactful and further action necessary
  • Loan Product Advisor will provide “Invalid” recommendation if impactful
  • Manually underwritten typically significant items must be resolved prior to approval

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

**Minimum Payments**
- Usually on credit report
- If not on credit report
  - Creditor supplied documentation
  - Revolving, DU and Loan Product Advisor allow using the greater of:
    - 5% of outstanding balance or
    - $10

**Open Ended Accounts (O-J or O-I under MOP on Credit Report)**
- Sufficient funds for repayment plus funds to close and reserves
  - Yes
    - Inclusion not required
  - No
    - Inclusion of 5% outstanding balance required for Freddie Mac if no payment listed
    - Cannot close loan for Fannie Mae

- Third party responsibility
  - Example: employer reimbursement
  - Document with letter from employer/responsible party
Credit History

Student Loans
– Fannie Mae

Student Loans

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

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

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

*See Fannie Mae SEL 2017-04 for guidance on student loan debts when calculating a borrower’s DTI Ratio.
Credit History

Student Loans

– Freddie Mac

• For loans in repayment use the greater of:
  – The monthly payment amount reported on the credit report, or
  – .5% of the original balance or outstanding balance as reported on the credit report, whichever is greater

• For loans in deferment or forbearance use the greater of:
  – The monthly payment reported on the credit report or
  – 1% of the original loan balance or outstanding balance as reported on the credit report, whichever is greater

Guidelines Stated Are Generic Freddie Mac Policy For Loan Settlement Dates January 18, 2018 Or After
Credit History

Excluding Debts – Contingent Liabilities or Not

– Fannie Mae
  • Allows for any type debt (revolving, leases, student loans & mortgage debt)
    – Must document 12 month payment history with no delinquencies
    – Evidence payments made by someone other than borrower(s)
    – Mortgaged properties must be counted in the maximum financed properties. See additional guidelines regarding use of rental income.

– Freddie Mac same as above. See Freddie Mac Bulletin 2017-23

– Situations requiring inclusion in debt ratio
  • Obligator’s payment not documented
  • Sufficient history (12 months) not established
  • History of Delinquency
  • Business debt not paid from separate business account
    – Cannot be borrower’s personal account
    – Cannot be business account from which personal debts are paid
Credit History

Recent Credit Inquiries

– Definition
  • Freddie Mac: within past 120 days
    – Review messages on Loan Product Advisor Feedback
  • 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
 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>6%</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>
5501.5: **Interested party contributions** (07/06/17)

(a) **Types of interested party contributions and eligibility requirements**

Freddie Mac will purchase Mortgages that include interested party contributions under the terms of the Purchase Documents and this section.

Interested parties include, but are not limited to:

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

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

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>LTV/TLTV ratios &gt;90%</th>
<th>LTV/TLTV ratios &gt; 75% and ≤ 90%</th>
<th>LTV/TLTV ratios ≤ 75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residences and second homes</td>
<td>3%</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>Investment Properties</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

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
  + Balance Owed on 30 day accounts “O”
  + Closing Costs
  + Prepaids and escrows
  + Judgments, collections and debt to be brought current, paid down or paid off prior to/or at closing.
  + Required Reserves

__________________________

= Total Required Funds
Capital

Assets to Close

– Cash to close

– Reserves

  • Loan Product Advisor/DU
    – Verify funds required
    – Best practice: only enter needed funds

– Manual calculation

  • Additional reserves need to be calculated when:
    – Borrower is selling a home and needs cash to complete that transaction
    – For Loan product Advisor loans when discount points are being paid by anyone other than borrower

– Other funds necessary for transaction (manual calculation??)

  • Debts paid at close (check guidelines)
  • 30-day accounts, if applicable
  • Credit card financing, if applicable (funds to payoff or include in DTI)
  • Collections and charge-off
    – Multi family owner occupied, second homes and investment transactions - see guidelines
  • Judgements or garnishments
Capital

Large Deposits Fannie Mae

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

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**Fannie Mae Single Family Selling Guide**

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

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Deposits Which May Indicate Borrowed Funds Must Be Investigated.

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Avoiding Common Underwriting Errors
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

<table>
<thead>
<tr>
<th>Topic</th>
<th>Documentation Requirements</th>
</tr>
</thead>
</table>
| Required funds (continued) (Guide Section 5103.1 and Guide Chapter 5501) | Asset documentation must meet the requirements of Guide Sections 5102.3 and 5102.4, as applicable, and be maintained in the mortgage file. In addition:  
  - For purchase transactions, document the source of funds for any single deposit exceeding 50% of the total monthly qualifying income for the mortgage (referred to as a large deposit) if the deposit is needed to qualify the borrower for the mortgage transaction. When a large deposit is not documented and is not needed to qualify the borrower for the mortgage transaction, reduce the funds used for qualifying purposes by the amount of the unverified funds. |

Freddie Mac Seller/Servicer Guide
§ 5103.1 and 5501 Required funds
- When the source of funds can clearly be identified (e.g., direct payroll deposits or tax refund), additional documentation is not required.
- If an account was opened within 90 days of a direct verification (i.e., VOD) and/or reflects a current balance significantly greater than the average balance, document the source of funds.
- You must consider any liabilities resulting from all borrowed funds.

Deposits Which May Indicate Borrowed Funds Must Be Investigated.
Capital: Freddie Mac’s Funds To Be Verified
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: If this value is negative, $0.00 displays. This occurs, for example, when the borrower is receiving cash out from the transaction.)</em></td>
</tr>
<tr>
<td>4</td>
<td>Required Reserves</td>
<td>The minimum amount of remaining eligible assets required after closing. <em>(Note: The Assets and Reserves section in the feedback messages will reflect any additional required reserves.)</em></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>
Capital

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

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

<table>
<thead>
<tr>
<th>LTV, CLTV, or HCLTV Ratio</th>
<th>Minimum Borrower Contribution Requirement from Borrower’s Own Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>80% or less</td>
<td>One- to four-unit principal residence Second home</td>
</tr>
<tr>
<td></td>
<td>A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a gift.</td>
</tr>
<tr>
<td>Greater than 80%</td>
<td>One-unit principal residence</td>
</tr>
<tr>
<td></td>
<td>A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.</td>
</tr>
<tr>
<td></td>
<td>Two- to four-unit principal residence Second home</td>
</tr>
<tr>
<td></td>
<td>The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.</td>
</tr>
</tbody>
</table>

See B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements, for HomeReady mortgage minimum borrower contribution and down payment requirements.

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

Borrower’s Own Funds

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

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

Single-Family Seller/Servicer Guide
  Single-Family Seller/Servicer Guide
  Selling
  Series 5000: Origination and Underwriting
  Topic 5500: Assets (Borrower Funds and Reserves)
  Chapter 5501: Assets (Borrower Funds and Reserves)

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 B3-4.3-04: Personal Gifts</td>
</tr>
</tbody>
</table>

https://www.fanniemae.com/content/faq/underwriting-faqs.pdf
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 per investor guidelines
    – Fannie Mae prior to or at closing
    – Freddie Mac prior to closing
– Other restrictions
  • Investment properties, gifts are not allowed
Capital: Fannie Mae

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 percentage to 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
– Max is 10 financed Properties

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

*If marked paid by close, omit or if associated with subject property, not included.
### 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</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>$230,050 x 2% = $4,601</td>
</tr>
<tr>
<td></td>
<td>$230,050</td>
<td></td>
<td>Total = $6,153</td>
</tr>
</tbody>
</table>
Important Updates About Reserves

Effective For Loans Submitted and Resubmitted On Or After November 12, 2017

– Loan Product Advisor will determine reserves for additional properties owned and obligated on when subject is a second home or investment property
– Data accuracy is critical
– Enter all eligible assets
– Enter details for each additional 1-4 unit residential property in which the borrower has ownership interest and is obligated on the financing
– Specifically:
  – Property disposition
  – Subject property
  – Current Resident
  – Liabilities associated with each property?
Compliance
Completeness
Compliance

Ensure Completeness of the Loan Application and Loan Package

- 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?
Genworth Underwriting Guidelines
Avoiding Common Underwriting Errors
LOS Connections
Training Tools and Information
Avoiding Common Underwriting Errors

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

Course Catalog

Browse by Topic

Mortgage Industry Skills
Professional Development Skills
That MI Guy
Tutorials

Browse by Role

Mortgage Officer
Loan Officer
Loan Processor
Underwriter

Self-Employed Borrower Tools

We offer a valuable collection of downloadable calculators and reference guides to help you with calculating and analyzing the average monthly income of self-employed borrowers. They provide suggested guidance only and do not replace Fannie Mae or Freddie Mac instructions or applicable guidelines.

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

- Fannie Mae Form 1084 Calculator (2016-2017)
- Freddie Mac Form 91 Calculator (2016-2017)
- Freddie Mac Form 92 Calculator (2016-2017)
- Rental Income Calculator (2016-2017)
- 2106 Expense Form (2016-2017)
- Fannie Mae Rental Guide (Calculator 1038)
- Fannie Mae Rental Guide (Calculator 1039)
Your Genworth Resources

- ActionCenter®: 800 444.5664
- Your Local Genworth Regional Underwriter
- Your Genworth Sales Representative
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