Avoid Common Underwriting Errors:
Suggested Best Practices

December 2019
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
Avoiding Common Underwriting Errors

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

General Underwriting

Mortgage Products

Loan Quality

Technology Solutions

Training focusing on underwriting the borrower and the property.

Job Aids / FAQs

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

Online Courses / Microlearning

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

https://www.fanniemae.com/singlefamily/originating-underwriting-training
Fannie Mae Borrower Income Verification FAQs

Answers Common Lender Income Questions

– https://www.fanniemae.com/content/faq/borrower-income-verification-faqs.pdf
### Fannie Mae Top Trending Questions

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

#### Asset Assessment > Verification of Non-Depository Assets
- How is donor availability and transfer of gift funds verified?
- What are the documentation requirements for gift funds?
- When can gift funds be used?
- Who are acceptable gift donors?

#### Income Assessment > Employment Income
- How is variable income calculated?
- What is required when a borrower is employed by family?

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

[https://www.fanniemae.com/content/faq/trending-questions-lenders-faqs](https://www.fanniemae.com/content/faq/trending-questions-lenders-faqs)
Helping every business in the housing value chain thrive

Tools & Learning

Featured Solutions

- Seller / Servicer Guide
- Loan Advisor
- Freddie Mac Learning
- Access Manager

Latest in Learning

- Getting Started with AIM Learning Clip
- Set Your Target on AIM for Self-Employed Income with Loan Product Advisor Webinar
- Automated Income Assessment with Loan Product Advisor Webinar

https://sf.freddiemac.com/
Avoiding Common Underwriting Errors
Avoiding Common Underwriting Errors
Documentation and Rental Income Matrix

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

Avoiding Common Underwriting Errors
Genworth Underwriting Guidelines

Avoiding Common Underwriting Errors
### Simply Underwrite® Eligibility Recap

Simply Underwrite applies to eligible loans with a Desktop Underwriter® recommendation or Loan Product Advisor® risk classification. Contact your sales representative or the ActionCenter® at 800-444-5664 with any questions.

**Effective August 5, 2019**

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Max LTV</th>
<th>Max Loan Amount</th>
<th>Min Credit Score</th>
<th>Max DTI²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single family (detached &amp; attached), Condominiums, Cooperatives, Manufactured Housing</td>
<td>95%</td>
<td>FHA High Cost</td>
<td>620</td>
<td>Per DU &amp; Loan Product Advisor</td>
</tr>
<tr>
<td>2 units</td>
<td>95%</td>
<td>FHA High Cost</td>
<td>620</td>
<td></td>
</tr>
<tr>
<td>3 units</td>
<td>85%</td>
<td>FHA High Cost</td>
<td>620</td>
<td></td>
</tr>
<tr>
<td>4 units</td>
<td>95%</td>
<td>FHA High Cost</td>
<td>620</td>
<td></td>
</tr>
</tbody>
</table>

#### Second Home – Purchase, Rate/Term Refinance and Construction-to-Permanent

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Max LTV</th>
<th>Max Loan Amount</th>
<th>Min Credit Score</th>
<th>Max DTI²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single family (detached &amp; attached), Condominiums</td>
<td>90%</td>
<td>FHA High Cost</td>
<td>620</td>
<td>Per DU &amp; Loan Product Advisor</td>
</tr>
</tbody>
</table>

#### Investment Property – Purchase and Rate/Term Refinance

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Max LTV</th>
<th>Max Loan Amount</th>
<th>Min Credit Score</th>
<th>Max DTI²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single family (detached &amp; attached), Condominiums</td>
<td>85%</td>
<td>FHA High Cost</td>
<td>620</td>
<td>Per DU &amp; Loan Product Advisor</td>
</tr>
</tbody>
</table>

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*Construction-to-Permanent is limited to property type other than single family (detached). Manufactured Housing.
* Genworth utilizes the DTI excluding the mortgage insurance for pricing purposes; the total DTI including mortgage insurance is used for guideline eligibility.
* Manufactured Housing is eligible to a maximum LTV of 97% for NFL Advantage loans.

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**Eligibility**

- In addition to Approve/Eligible and Accept/Eligible loans, the following GSE AUS recommendations or risk classifications may be eligible for Simply Underwrite:
  - Approve/Ineligible for HomePath® Property
  - See Simply Underwrite sections 4.1 and 4.1 in the Underwriting Guidelines for complete details
  - HomeReady® and Home Possible® are eligible for Simply Underwrite. For more information, see section 4.2 in the Underwriting Guidelines.

**Exclusions from Simply Underwrite**

- Fannie Mae High LTV Refinance Option and Freddie Mac Enhanced Relief Refinance Mortgage™
- Lender-negotiated guideline variances, waivers, or programs unless approved by Genworth. However, GSE published Renovation Mortgage Programs and cooperative share mortgages are eligible for Simply Underwrite.

**Other Underwriting Requirements**

- Genworth does not insure the following: Properties located in Guam, Puerto Rico and Virgin Islands
- Follow Sections 4.1 and 4.1 Simply Underwrite requirements in our Underwriting Guidelines
- Appraisal waivers are eligible when offered by DU for rate/term refinance transactions receiving a DU Approve/Eligible recommendation

**Note**

- References to FHA (Federal Housing Finance Agency) pertain to HELOC High-Cost Areas Loan Limits which can be found at FHA Loan Limits.
# Genworth MI Top Decision Errors

## 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 Contributions</td>
<td>Section 5.39 Builder/Seller Contributions</td>
<td>Underwriter must ensure that AUS, Genworth and Investor guidelines have been met.</td>
</tr>
<tr>
<td>Follow Gesi standard guidelines for treatment of builder/seller contributions, subject to these maximum contribution amounts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td>LTV</td>
<td>Max Contribution</td>
</tr>
<tr>
<td>Primary Residence</td>
<td>90%</td>
<td>10%</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 adjustments are ineligible. Payment adjustments are funds provided by an interested party used to offset or fund a borrower’s monthly payments.

Make: The payment of FHA fees is not considered an adjustment unless the payment of the fees extends for more than 36 months, the payment of HUD fees for 90 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/CV=90%. All other requirements related to interested party contributions continue to apply. An IPC 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>Verbal VOE Missing, Incomplete or Incorrect</td>
<td>Genworth Section 4.1 Simply Underwrite Eligibility</td>
<td>Underwriter must ensure that AUS, Genworth and Investor documentation requirements have been met.</td>
</tr>
<tr>
<td>Follow Verbal VOE requirements by DU and Loan Product Advisor.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Genworth Standard Guidelines Documentation Section 7.7</td>
<td>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>
<tr>
<td>Genworth Section 4.1 Simply Underwrite Eligibility</td>
<td>Follow documentation required by DU and Loan Product Advisor. Additional documentation may be required to support the underwriting decision.</td>
<td></td>
</tr>
<tr>
<td>Genworth Standard Guidelines Documentation Requirements Section 3.1</td>
<td>Genworth will accept the following GSE standard underwriting guidelines for Income &amp; Employment. Our policy is to:</td>
<td></td>
</tr>
<tr>
<td>Follow Fannie Mae’s guidelines when Fannie Mae is the investor or the Fannie Mae Selling Guide is your standard guideline set.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Follow Freddie Mac’s guidelines when Freddie Mac is the investor or the Freddie Mac Seller Guide is your standard guideline set.</td>
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Income Not Documented as Required by Program and/or AUS Findings Recommendation

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 03/01/16, Loan closed 12/12/16 (over 120 days old).

Example 3: Current paystub is missing VEO income.

Example 4: Borrower has a 2 year job history per 1003 but started a new job mid year. A lender is required to obtain documentation from the previous employer. The loan file needs to reflect all YTD income and address any employment gaps. There should be evidence of continuity of Income.

For further information: [https://new.mi.genworth.com/underwriting-tips-and-credit-policy](https://new.mi.genworth.com/underwriting-tips-and-credit-policy)
### 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 Standard Guidelines Section 7.10 Assets and Liabilities</td>
<td><strong>Example 1:</strong> Missing documentation to evidence source of a large deposit in the amount of $6,500.00.</td>
</tr>
<tr>
<td></td>
<td>Genworth will accept the following GSE standard underwriting guidelines for asset and liability assessment. Our policy is to:</td>
<td><strong>Example 2:</strong> Missing all pages to bank statements or missing second month statement if required.</td>
</tr>
<tr>
<td></td>
<td>• Follow Fannie Mae’s guidelines when Fannie Mae is the investor or the Fannie Mae Selling Guide is your standard guideline set</td>
<td></td>
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<td></td>
<td>• Follow Freddie Mac’s guidelines when Freddie Mac is the investor or the Freddie Mac Seller Guide is your standard guideline set</td>
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</tr>
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<td></td>
<td>• Follow the least restrictive of the agencies guidelines for all other situations, unless a specific GSE’s guideline is noted to follow for all others.</td>
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## Assets – Analyzing the Borrower’s Assets

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<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: | Underwriter must ensure that AUS, Genworth and Investor guidelines have been met. |
|                         | **Occupancy** | **LTV** | **Max Contribution** | **Occupancy** | **LTV** | **Max Contribution** |
| Primary Residence       | 90.01 – 97%   | 3%      | 6%                    | Second Homes  | 90%       | 6%                    |
| Second Homes            | 90%           | 6%      |                        | Investment Property | 85%   | 2%                    |
| Investment Property     | 85%           | 2%      |                        |                |          |                       |

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.
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<td></td>
<td>Follow Verbal VOE requirements by DU and Loan Product Advisor.</td>
<td><strong>Example 1</strong>: Missing current paystub and W-2 from the prior year or a standard VOE as required by DU.</td>
</tr>
<tr>
<td></td>
<td><strong>Genworth Standard Guidelines Documentation Section 7.2</strong></td>
<td><strong>Example 2</strong>: Expired income documents. Most recent paystub provided for borrower is dated 08/01/16. Loan closed 12/15/16 (over 120 days old).</td>
</tr>
<tr>
<td></td>
<td>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>
<tr>
<td></td>
<td><strong>Genworth Section 4.1 Simply Underwrite Eligibility</strong></td>
<td><strong>Example 3</strong>: Current paystub is missing YTD income.</td>
</tr>
<tr>
<td></td>
<td>Follow documentation required by DU and Loan Product Advisor. Additional documentation may be warranted to support the underwriting decision.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Genworth Standard Guidelines Documentation Requirements Section 7.1</strong></td>
<td><strong>Example 4</strong>: Borrower has a 2 year job history per 1003 but started a new job mid-year. A lender is required to obtain documentation from the previous employer. The loan file needs to reflect all YTD income and address any employment gaps. There should be evidence of continuity of income.</td>
</tr>
<tr>
<td></td>
<td>Genworth will accept the following GSE Standard underwriting guidelines for Income &amp; Employment. Our policy is to:</td>
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</tr>
<tr>
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<td>• Follow Fannie Mae’s guidelines when Fannie Mae is the investor or the Fannie Mae Selling Guide is your standard guideline set</td>
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<td>• Follow the least restrictive of the agencies guidelines for all other situations, unless a specific GSE’s guideline is noted to follow for all others.</td>
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<td>Income Not Documented as Required by Program and/or AUS Findings Recommendation</td>
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Avoiding Common Underwriting Errors
Training Tools and Information

Avoiding Common Underwriting Errors

mi.genworth.com
Training Tools and Information

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.

Browse by Topic

- Mortgage Industry Skills
- Professional Development Skills
- That MI Guy
- Tutorials

Browse by Role

- Underwriter Skills
- Manager Skills
- Stay Informed
- Compliance

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

- Fannie Mae Form 1084 Calculator (2017-2018)
- Rental Income Calculator (2017-2018)
- Current Ratio - Liquidity Calculator (2017-2018)
- Fannie Mae Rental Guide (Calculator 1037)
- Fannie Mae Rental Guide (Calculator 1039)
- Fannie Mae Comparative Analysis Form 1088 (2017-2018)
- Income Calculation Worksheet

Avoiding Common Underwriting Errors
Common Underwriting Errors
Capacity, Credit History, Capital, Compliance
Underwriting Reminders

Every loan is unique

Always follow prudent underwriting standards

Information must be consistent

All applicable guidelines should be followed

Guidelines show minimum requirements
Five Cs
Capacity
Credit History
Collateral
Capital
Compliance

Six Cs
Capacity
Credit History
Collateral
Capital
Compliance
Common Sense
Capacity Errors
Income Calculation and Documentation, Self-Employed Borrowers
Capacity

Two Year History is Required on the URLA for All Applicants

Freddie Mac Documentation Matrix

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

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

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

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

Documentation
– READ the AUS results
– Check for overlays
– Seek additional documentation if:
  • Inconsistent
  • Discrepancies
  • Possible misrepresentation-google® the business, look at a satellite map, Secretary of State website
### 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>
</tbody>
</table>

**Fannie Mae Single Family Selling Guide**

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

- mortgage credit certificates
- part-time job, second job, or seasonal income
- rental income
- self-employment income
- Social Security, VA, or other government retirement or annuity
- VA benefits (not including retirement or long-term disability)
Capacity: Fannie Mae

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

Avoiding Common Underwriting Errors
Capacity: Freddie Mac

Topic 5300: Stable Monthly Income and Asset Qualification Sources
- Chapter 5301: General Requirements for All Stable Monthly Income and Asset Qualification Sources
- Chapter 5302: General Documentation Requirements
- Chapter 5303: Employed Income
- Chapter 5304: Self-Employed Income
- Chapter 5305: Other Income
- Chapter 5306: Rental Income
- Chapter 5307: Asset Qualification Sources
Capacity: Freddie Mac

Income continuance charts were added to Topic 5301.1
- Income and earnings types typically without documentable continuance
- Income types with documentable continuance
- Other income types that may or may not have documentable continuance

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

Freddie Mac's Single-Family Seller/Servicer Guide Series 5000: Origination and Underwriting
Topic 5300: Stable Monthly Income and Asset Qualification Sources
Chapter 5301: General Requirements for All Stable Monthly Income and Asset Qualification Sources
Capacity

Examine Paystubs Carefully

– Clear explanations for withholding items
  • Possible undisclosed debt

– Consistent information
  • Address on the stub does it match the 1003?
  • Social Security number
    – Last four digits match the 1003?

– Year to date income
  • Showing on paystub, does it support qualifying income
  • Review prior year or years with ytd and qualifying income…Consistent?

– Stale dated?

– Year End paystubs for borrowers with OT, bonus, commission incomes or

– Verification of Employment for clarity on
  – OT
  – Bonus
  – Commission

– See next slide for examples
Selling Guide

Published June 5, 2019

Guide Table of Contents

B3-3.1-01: General Income Information (12/04/2018)

This topic contains information on employment income, including:
- Stable and Predictable Income
- Variable Income
- Continuity of Income
- Determining the Need for Federal Income Tax Returns
- Verification of Income for Non-U.S. Citizen Borrowers
- Using Nontaxable Income to Adjust the Borrower’s Gross Income
- Reduced Income Documentation Requirements for DU Refi Plus, Refi Plus, and High LTV Refinance Mortgage Loans

Stable and Predictable Income

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

To demonstrate the likelihood that a consistent level of income will continue to be received for borrowers with less predictable sources of income, the lender must obtain information about prior earnings. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen.
Variable Income

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

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

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

- If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three months produces a much higher, inaccurate monthly average.

- If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical (transportation employees who operate snow plows in winter, package delivery service workers who work longer hours through the holidays). The lender must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.

See B3-3.1-01, General Income Information (12/04/2018)
Capacity: Fannie Mae Selling Guide

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

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

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

See B3-3.1-01, General Income Information (12/04/2018)
Capacity:

Effective for Mortgages with Settlement Dates on or After April 2, 2020 but Seller are ENCOURAGED to implement as soon as possible
Capacity: Freddie Mac 2019-20

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

– Require that when the borrower’s income is derived from fluctuating hourly employment earnings, under no circumstances may the employment history be less than 12 months.

– Adding a requirement that for base hourly earnings to be considered non-fluctuating for the purpose of income calculation, the borrower must have a documented history of working the same number of hours with the same employer for a minimum of six months

– Clarifying that “fluctuating hourly employment earnings” are considered to be wages that are based on an hourly rate of pay and where the number of hours fluctuate each pay period

– Alignment of income calculation requirements for all fluctuating employment income types (hourly base, overtime, bonus, commission and tips). The calculation is based on whether the income trend is determined to be consistent, increasing or declining.

– Adding requirements for additional analysis when income fluctuation between the prior year(s) and year-to-date exceeds 10%.
# Employment/Income - Fully Completed VOE (Form 1005)

<table>
<thead>
<tr>
<th>Missing Loan Submission Documentation</th>
<th>Examples &amp; Helpful Tips</th>
<th>Agency Guideline References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower(s) breakdown of earnings for:</td>
<td></td>
<td>Fannie Mae Selling Guide:</td>
</tr>
<tr>
<td>• Bonus</td>
<td>Example 1: Borrower is paid hourly, however, paystub(s) provided reflect a varied number of hours per week.</td>
<td></td>
</tr>
<tr>
<td>• Overtime</td>
<td>Help Tip:</td>
<td></td>
</tr>
<tr>
<td>• Commission</td>
<td>1. Provide fully completed Verification of Employment</td>
<td></td>
</tr>
<tr>
<td>• Other pay types</td>
<td>2. Ensure the employer completes all sections of the Verification of Employment form (including – “If paid hourly – average hours per week”)</td>
<td></td>
</tr>
<tr>
<td>Via a fully completed Verification of Employment (VOE)</td>
<td>a. TIP: If borrowers prior year(s) earnings are not in line with current YTD earnings, employer to address in “Remarks” section for any significant increase/decrease in current pay vs. prior year(s) earnings</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Example 2:</strong> Borrower is paid a Base Salary, however, also receives Overtime, Bonus, or Commission(s) income that is needed to qualify. Paystub(s) reflect Base income, and Overtime, Bonus, or Commission(s), per pay period and YTD, however W2(s) only reflect total earnings with no breakdown of income.</td>
<td>Freddie Mac Selling Guide:</td>
</tr>
<tr>
<td></td>
<td><strong>Helpful Tips:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Provide fully completed Verification of Employment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Ensure the employer completes all sections of the Verification of Employment form including a full breakdown of income including Base, Overtime, Bonus, or Commission(s) for YTD and prior year(s) as required by AUS and/or Program Guidelines</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. TIP: Make sure the employer indicates if the Overtime, Bonus or Commission(s) are likely to continue</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. TIP: If Overtime, Bonus, or Commission(s) prior year(s) earnings are not in line with current YTD earnings, employer to address in “Remarks” section for any significant increase/decrease in current pay vs prior year(s) earnings</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: Investor Guidelines/Overlays may differ from Fannie Mae/Freddie Mac Requirements*
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://new.mortgageinsurance.genworth.com/self-employed-borrower-calculators
Capacity: Self-Employed Income

Fannie Mae Income Calculations

– Bulletin 2016-05

• Clarification in determining adequate business liquidity when required
• Eliminated the requirement to document the borrower’s access to income
• Extended the VVOE on Self-Employed from 30 days prior to the note to 120 days
Capacity: Self-Employed Income
Freddie Mac Income Calculations

– Bulletin 2016-19
  • Distributions are not required for partnerships and S corporations but business must be capable of paying out profit and generating future earnings

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

– Bulletin 2018-15
  • Updated policy for self-employment when disclosed and not used for qualifying. Income or loss not required to be evaluated or documented for each borrower when:
    – Has a primary source of income, other than self-employment, used for qualifying the Mortgage and
    – Is self-employed, and the self-employment income is a secondary source of income
### Capacity: Self-Employed Income

**Freddie Mac Income Documentation**

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

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

<table>
<thead>
<tr>
<th>Business in existence ≥ 5 years¹</th>
<th>Business in existence &lt; 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sole proprietorship</strong></td>
<td><strong>Sole proprietorship</strong></td>
</tr>
<tr>
<td>Obtain complete signed federal</td>
<td>Obtain complete signed federal</td>
</tr>
<tr>
<td>individual (Form 1040) income</td>
<td>individual (Form 1040) income</td>
</tr>
<tr>
<td>tax return for the most recent</td>
<td>tax returns for the most recent</td>
</tr>
<tr>
<td>year.</td>
<td>two years.</td>
</tr>
<tr>
<td><strong>Partnership</strong></td>
<td><strong>Partnership</strong></td>
</tr>
<tr>
<td>Verify the number of years that</td>
<td>Verify the number of years that</td>
</tr>
<tr>
<td>the business has been in existence</td>
<td>the business has been in existence</td>
</tr>
<tr>
<td>and obtain complete signed federal</td>
<td>and obtain complete signed federal</td>
</tr>
<tr>
<td>individual and Partnership (Form</td>
<td>individual and Partnership (Form</td>
</tr>
<tr>
<td>1065) income tax returns,</td>
<td>1065) income tax returns,</td>
</tr>
<tr>
<td>including the Schedule K-1(s)</td>
<td>including the Schedule K-1(s)</td>
</tr>
<tr>
<td>for the most recent year.</td>
<td>for the most recent two years.</td>
</tr>
</tbody>
</table>

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

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

Credit Concerns Not Always Recognized by AUS or Common Errors

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

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

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

Credit Scores

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

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

– Lender, Investor, GSE requirement met?
Credit History

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

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

Inaccurate Information
- Determine impact (Was AUS credit score impacted?)
- Obtain
  - Written explanation from Borrower
  - Credit report supplement
  - New credit report
  - Creditor documentation

- Manually underwritten loans
  - Reporting company confirms inaccuracy
    - Credit report unreliable
    - Traditional credit evaluation without regard to inaccurate information
  - Investors often require the “inaccuracy” be cleared and resolved before loan approval
Credit History

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

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

– Third party responsibility
  • Document with letter from employer/responsible party
    https://www.fanniemae.com/content/guide/selling/b3/6/05.html
    https://guide.freddiemac.com/app/guide/content/a_id/1000663  Chapter 5401.2
Credit History

Student Loans
   – Fannie Mae

Student Loans

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

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

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

Guidelines Stated Are Generic Fannie Mae Policy
Credit History

Student Loans

– Freddie Mac

<table>
<thead>
<tr>
<th>Debt Type</th>
<th>Eligibility and Documentation Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>In repayment, forbearance or deferment</td>
<td>• If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or</td>
</tr>
<tr>
<td></td>
<td>• If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report.</td>
</tr>
<tr>
<td>In loan forgiveness, cancellation, discharge and employment-contingent repayment programs</td>
<td>The monthly payment amount may be excluded from the monthly DTI ratio provided the mortgage file contains documentation that indicates the following:</td>
</tr>
<tr>
<td></td>
<td>• The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or paid, or</td>
</tr>
<tr>
<td></td>
<td>• The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, cancelled, discharged or paid at the end of the deferment or forbearance period</td>
</tr>
<tr>
<td></td>
<td>AND</td>
</tr>
<tr>
<td></td>
<td>• The borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and the Seller is not aware of any circumstances that will make the borrower ineligible in the future</td>
</tr>
<tr>
<td></td>
<td>*Effective 1/2/2020:</td>
</tr>
<tr>
<td></td>
<td>• The borrower is eligible or approved for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program. Evidence of eligibility or approval must come from the student loan program or the employer, as applicable.</td>
</tr>
</tbody>
</table>

Prudent Underwriting Practices Will Apply
Credit History

Excluding Debts – Contingent Liabilities or Not

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

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

https://www.fanniemae.com/content/guide/selling/b3/6/05.html#Debts.20Paid.20by.20Others
https://guide.freddiemac.com/app/guide/content/a_id/1000663  Chapter 5401.2
Credit History

Recent Credit Inquiries

– Definition
  • Freddie Mac: within past 90 days
    – Review updated messages on Loan Product Advisor Feedback
  • Fannie Mae: The report must list all inquiries that were made in the previous 90 days.

– Confirm if new credit obtained
  • Do you see the new account on credit report?
  • Was it disclosed on application?
  • Obtain verification
    – Freddie Mac documentation examples
      • Creditor letter
      • Signed borrower letter
  • Include in ratios
  • See next slide for examples
<table>
<thead>
<tr>
<th>Credit - Credit Report Inquiries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Missing Loan Submission Documentation</strong></td>
</tr>
<tr>
<td><strong>Credit Inquiry Letter as required by AUS and/or Program Guidelines</strong></td>
</tr>
<tr>
<td><strong>Examples &amp; Helpful Tips</strong></td>
</tr>
<tr>
<td><strong>Example 1:</strong> Borrower’s credit report shows an auto lease with 2 months left to pay, and Inquiries section shows 11 inquiries recently from auto dealerships.</td>
</tr>
<tr>
<td><strong>Helpful Tips:</strong></td>
</tr>
<tr>
<td>1. AUS/Guidelines did not require an inquiries action, however, the following action(s) would be necessary</td>
</tr>
<tr>
<td>2. Provide a signed/dated LOX regarding the inquiries from the borrower addressing the inquiries</td>
</tr>
<tr>
<td>3. If the borrower purchased/leased a new automobile:</td>
</tr>
<tr>
<td>a. Updated 1003/1008/AUS including the new additional debt in borrower’s qualifying ratios</td>
</tr>
<tr>
<td>b. Provide documentation to verify the new debt (e.g. – Promissory Note, Lease Agreement, Monthly statement)</td>
</tr>
<tr>
<td><strong>Example 2:</strong> Loan was submitted to LPA and borrower’s credit report reflects 4 various inquiries within the last 90 days.</td>
</tr>
<tr>
<td><strong>Helpful Tips:</strong></td>
</tr>
<tr>
<td>1. LPA feedback returned a feedback message for at least 1 creditor inquiry within the previous 90 days</td>
</tr>
<tr>
<td>2. Provide a signed/dated LOX regarding the inquiries from the borrower addressing each of the inquiries</td>
</tr>
<tr>
<td>3. If any new credit was granted as a result of these inquiries:</td>
</tr>
<tr>
<td>a. Obtain verification of the new debt (payment and terms)</td>
</tr>
<tr>
<td>b. Updated 1003/1008/AUS including the new additional debt in borrower’s qualifying ratios</td>
</tr>
<tr>
<td><strong>Agency Guideline References</strong></td>
</tr>
<tr>
<td><strong>Fannie Mae Selling Guide:</strong></td>
</tr>
<tr>
<td>• Section B3-5.3-04: Inquiries: Recent Attempts to Obtain New Credit</td>
</tr>
<tr>
<td>• Section B3-5.2-09: DU Credit Report Analysis</td>
</tr>
<tr>
<td><strong>Freddie Mac Selling Guide:</strong></td>
</tr>
<tr>
<td>• Section 5201.1: Credit Assessment with Loan Product Advisor – (e) – Inquiries</td>
</tr>
<tr>
<td>• Section 5202.3: Evaluating Borrower credit reputation for Manually Underwritten Mortgages</td>
</tr>
<tr>
<td>• Section 5202.6: Evaluating other credit information – (a) – Inquiries</td>
</tr>
</tbody>
</table>

*Note: Investor Guidelines/Overlays may differ from Fannie Mae/Freddie Mac Requirements*
Capital Errors

Assets to Close, Borrower’s Own Funds, Gift Funds, Reserves and Large Deposits
Excessive Seller Contributions

– Follow GSE, Investor and MI Guidelines
– Loans with payment abatements are ineligible
  • Exception condo/HOA dues up to 12 months but amounts must be included as IPC
– Check for guideline overlays
– Put a condition on loan approval and Closing instructions for IPC not to exceed “X” amount
– See guidelines on next slides
### IPC Limits

The table below provides IPC limits for conventional mortgages.

IPC limits 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%¹</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>
Avoiding Common Underwriting Errors

IPC’s- Freddie Mac

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.

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

Purchase Price (or refinance of all debt to be paid off)
- Earnest Money Deposit (only if verified)
- Other Financing (if applicable)
- Loan Amount Applied for
+ Balance Owed on 30 day accounts “O”
+ Closing Costs
+ Prepaids and escrows
+ Judgments, collections and debt to be brought current, paid down or paid off prior to/or at closing.
+ Required Reserves

__________________________

= Total Required Funds
Capital

Assets to Close

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

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

Fannie Mae Single Family Selling Guide
§ B3-4.2-02, Depository Accounts (12/06/2016)

Deposits Which May Indicate Borrowed Funds Must Be Investigated.
Capital

Large Deposits Freddie Mac

– A large deposit is any single deposit that is 50% or more of the total qualifying income being used to qualify

• Source any account opened in most recent 90 days if using VODs

<table>
<thead>
<tr>
<th>Topic</th>
<th>Documentation Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required funds (Guide Section 5103.1 and Guide Section 5501.1, 5501.3)</td>
<td>All funds used to qualify the borrower for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves) must come from eligible sources described in Guide Section 5501.3.</td>
</tr>
<tr>
<td>For purchases, document the borrower has sufficient funds verified and from eligible sources to qualify for the mortgage transaction.</td>
<td></td>
</tr>
<tr>
<td>For refinances, verification of funds is required.</td>
<td></td>
</tr>
<tr>
<td>For non-occupant co-borrower transactions, funds may come from the occupant and/or non-occupant borrower.</td>
<td></td>
</tr>
<tr>
<td>For mortgages secured by second homes, see Guide Section 4201.15(b). Asset documentation must meet the requirements of Guide Sections 5501.3, 5102.3 and 5102.4, as applicable, and be maintained in the mortgage file. In addition:</td>
<td></td>
</tr>
<tr>
<td>For purchase transactions, document the source of funds for any large deposit when the...</td>
<td></td>
</tr>
</tbody>
</table>

Deposits Which May Indicate Borrowed Funds Must Be Investigated.
Capital

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

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. 1 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.
Capital: Freddie Mac

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

- No requirement for >80% LTV loans where:
  - Primary residence and
  - Gift or gift of equity received from eligible donor used as source of funds or
  - Employer Assisted Homeownership (EAH) Benefit is used as source of funds

- Some >80% LTV loans secured by manufactured loans no longer require borrower’s own funds in transaction

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

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**Special requirements for Borrower personal funds**

**(i) Minimum Borrower contribution**

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

<table>
<thead>
<tr>
<th>Mortgage type</th>
<th>Guide section number</th>
<th>Mortgages with LTV/TLTV/HTLTV ratios &lt; 80%</th>
<th>Mortgages with LTV/TLTV/HTLTV ratios ≥ 80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage secured by a 1- and 2-unit Primary Residence</td>
<td>N/A</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Mortgage secured by a 3- and 4-unit Primary Residence</td>
<td>N/A</td>
<td>None</td>
<td>N/A</td>
</tr>
<tr>
<td>Mortgage secured by a second home</td>
<td>5501.3(c)</td>
<td>None</td>
<td>5% of value, when gift funds or grants are used for the transaction</td>
</tr>
<tr>
<td>Mortgage secured by an Investment Property</td>
<td>4201.16</td>
<td>All funds used for the transaction must be Borrower personal funds</td>
<td></td>
</tr>
<tr>
<td>Mortgages with shared equity plans</td>
<td>4204.5</td>
<td>5% of value (must be Owner-Occupant’s personal funds)</td>
<td></td>
</tr>
</tbody>
</table>
Gift Funds

– Enter into AUS correctly
– Must come from acceptable source
– A gift can be provided by:
  • A relative, defined as the borrower’s spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
  • A fiancé, fiancée, or domestic partner
– Document correctly
– *Verify donor availability
  • Funds transfer per investor guidelines
    – Fannie Mae prior to, or at closing
    – Freddie Mac prior to closing
– Other restrictions

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

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

Availability & Transfer of Funds

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

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

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

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

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

*New*

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**List Assets**

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

*Do not enter gift funds in Section 2. Gifts are entered in Section 4.*
## Capital- Gift Funds: Freddie Mac

<table>
<thead>
<tr>
<th>Topic</th>
<th>Documentation Requirements</th>
</tr>
</thead>
</table>
| Gift funds or a gift of equity (Guide Section 5501.3(c))             | Provide a gift letter signed by the donor. Information provided in the gift letter must:  
  - State the donor’s name and the funds are given by a related person  
  - Include the donor’s mailing address and telephone number  
  - State the amount of the gift funds or gift of equity  
  - Establish the gift funds or gift of equity are a gift that does not have to be repaid  
  Gift funds: If the verifications provided in the mortgage file do not show evidence that the gift funds have been deposited in the borrower’s account, the borrower must provide evidence of the transfer of funds from the donor to the borrower.  
  Gift of equity: A gift of equity must be reflected on the Settlement/Closing Disclosure Statement.  
  Note:  
  - Investment Property Mortgages: Gift funds or gift of equity are not an eligible source of funds  
  - Second Home Mortgages with LTV/TLTV/HTLTV ratios greater than 80%: Minimum contribution from borrower personal funds must be 5% of value when gift funds or grants are used for the transaction. |
| Gift funds received as a wedding gift (Guide Section 5501.3(c))      | Provide the following:  
  - A copy of the marriage license or certificate  
  - A verification of the gift funds in the borrower’s depository account  
  The gift funds must be on deposit in the borrower’s depository account within 60 days of the date of the marriage license or certificate. |
| A gift or grant from an agency (Guide Section 5501.3(c))             | Provide documentation supporting a gift or grant from an agency. Examples of acceptable documentation include copies of grant program materials, award letters or terms and conditions provided to the borrower. The documentation must:  
  - Establish that the funds were provided by an Agency  
  - Establish that the organization has an established gift or grant program  
  - Establish that the funds are a gift or grant that does not have to be repaid  
  - Provide evidence that the funds were received by the borrower or by the Seller on the borrower's behalf  
  - Identify the donor’s mailing address |

**Much more detailed information regarding gift funds**
* New *

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

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

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

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

Ensure Completeness of the Loan Application and Loan Package

- Two year history
  - Employment
  - Residence

- Occupancy
  - Make sense
  - Consistent throughout loan file

- Final 1003 URLA Signed

- Buyer/Seller CD in closed package

- AUS updated with final data
  - Within tolerances, if permitted

- Proofread
  - All information provided
  - All documents in file
Compliance

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

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

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

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

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

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

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

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

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

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

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

Freddie Mac - A refinance Mortgage is either:

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

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

Freddie Mac offers three types of refinance Mortgages:

A "no cash-out" refinance
A cash-out refinance
A special purpose cash-out refinance

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

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

– Freddie Mac No Cash-Out

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

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

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

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

Guide impacts: Sections 4301.4, 4602.5 and 5703.4
Genworth Underwriting Guidelines

Avoiding Common Underwriting Errors
Training Tools and Information

Genworth Mortgage Insurance

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LOS
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Avoiding Common Underwriting Errors

80
Training Tools and Information
Additional MI Site Information

What's New
- Video Underwriting & Technology
- August Training
- Rate Express: Reimagined

Let's quote rates quickly with YOU-CENTRICITY
GET A QUOTE!

Self-Employed Borrower Tools
- Introducing The NEW Rate Express
- Valuable income calculation tools and reference guides for calculating self-employed borrower income:
  - Schedule A
  - Form 1040 Schedule C
  - Form 1040 Schedule E

Homebuyer Education
- Homebuyers prepare for buying a home.
- Your no-fee resource!

Master Policy Agreement
- Partner with us. A master policy agreement is the first step to submitting MI loans to Genworth.
GET STARTED

Contract Services Agreement
- Faster, fixed underwriting costs as you adjust to the latest industry demands!
- Request a contract services underwriting agreement.
GET STARTED

Genworth MI Community
- Views to Use
Underwriting and the Digital Mortgage Transformation
STAY CONNECTED

Find My Sales Representative
- ZIP Code: 27615
- William Jackson
Account Manager
- Yvon Holland
Inside Sales Representative

Avoiding Common Underwriting Errors
Your Genworth Resources

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