

# Fannie Mae and Freddie Mac: Understanding Your Options

March 2021

## Customer Education

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**YOU-CENTRIC SOLUTIONS THAT MATTER**



# Course Objectives

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

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

***This does NOT include appraisal variations announced based on COVID 19.***

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

# Agenda

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

# LTV Differences Primary and Second Home

## Fannie Mae (Fixed Rate/ARMS\*\*)

- Maximum LTV/CLTV/HCLTV

## Purchase and Limited Cash-Out Refi

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

## Cash-Out Refinance

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

## Freddie Mac (Fixed Rate/ARMS)

- Maximum LTV/TLTV/HTLTV

## Purchase and No Cash-Out Refi

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

## Cash-Out Refinance

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

\*97% LTVs purchases must be fixed rate conforming, borrower must have a credit score and at least one borrower must be a first-time homebuyer (N/A for HomeReady Loans); for a 97% refinance, the applicable GSE must be the existing investor;

# LTV Differences Investment Properties

## **Fannie Mae (Fixed Rate/ARMS)**

- Maximum LTV/CLTV/HCLTV

### **Purchase**

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

### **Limited Cash-Out Refinance**

- 1-4 units 75%

### **Cash-Out Refinance**

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

## **Freddie Mac (Fixed Rate/ARMS)**

- Maximum LTV/TLTV/HTLTV

### **Purchase and No Cash-out Refi**

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

### **Cash-Out Refinance**

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

# No Cash and Limited Cash Out Amounts

## Fannie Mae

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

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

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

## (Effective for Mortgages with Settlement dates on and after February 4, 2020-Bulletin 2019-25)

- Proceeds of a No cash out may also be used to *pay down* any junior lien secured by the property that was used in its entirety to acquire the subject property

# Credit and Liabilities

## Fannie Mae

- Maximum DTI is 50%
  - Updated to not require additional compensating factors from 45% to 50%
  - Fine-tuned in Jan. 2018
- DU® carries out DTI to two decimal places
- 50.25% = 50.25%

### QUALIFYING RATIOS

Housing Expense	5.64%
Debt-to-Income	7.11%

## Fannie Mae

- Minimum Published 620 credit score

## Freddie Mac

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

### DEBT RATIO

20%

## Freddie Mac

- No published minimum

# Credit and Liabilities

## Fannie Mae

### – 30 Day Charge Accounts or Open Ended Accounts

- Must be omitted and funds verified to pay off (reserves); or
- Verify employer reimbursement (corporate expense account)

### – Collection Accounts

- 2-4 unit and second home loans with collections totaling more than \$5,000 must be paid off
- Investment properties, individual collections of \$250, or a loan that has accounts that total \$1,000 all must be paid off

## Freddie Mac

### – 30 Day Charge Accounts or Open Ended Accounts

- Can be omitted and funds verified to pay off (reserves): or

- Monthly payments on open-end accounts (accounts which require the balance to be paid in full monthly) are not required to be included in the monthly debt payment if the borrower has sufficient verified funds to pay off the outstanding account balance. The funds must be in addition to any funds used to qualify the borrower for the mortgage transaction.
- Effective with Settlement Dates on or after **July 6, 2021** the full outstanding account balance must be included in the debt payment-to-income ratio, or you must verify that the borrower has sufficient funds to pay off the outstanding account balance. Note: Loan Product Advisor will be updated by July 6, 2021.

### – Collection Accounts

- No written policy, cannot affect Freddie Mac first lien position



# Credit and Liabilities

## Fannie Mae

- **Disputed tradelines** DU tries to assess risk with the tradeline - if Approve, no additional action needed
  - DU will re-assess the risk without disputed tradelines and lenders must comply with DU messages
    - Not borrower's account
    - Tradeline report is inaccurate

## Freddie Mac

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

# Credit and Liabilities

## Fannie Mae

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

## Freddie Mac

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

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

# Credit and Liabilities

## Fannie Mae

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

## Freddie Mac: Repayment, Deferment or Forbearance

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

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

# Credit and Liabilities

## Fannie Mae

## Freddie Mac

- \*Student Loan in Forgiveness, cancellation, discharge and employment contingent repayment programs
- Monthly payment amount may be excluded from DTI, if file contains evidence
  - Student loans have less than 10 months payments; or
  - Payments are deferred or in forbearance and the full balance will be forgiven at the end of the deferment/forbearance period; AND
  - The mortgage file must contain documentation indicating the borrower is eligible or approved for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program. Evidence of eligibility or approval must come from the student loan program or the employer, as applicable

Effective January 2, 2020

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

# Fannie Mae Student Loan Cash-Out Refinance

## Priced as Limited Cash Out

- Subject to Cash-out LTV limits

### Student Loan Cash-out Refinance

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

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

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

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

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

### Effective Date

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

# ALL Borrowers Without Credit Scores

## Fannie Mae DU

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

## Freddie Mac Loan Product Advisor

- **Max LTV/TLTV/HTLTV 95%**
- **1-unit (can be manufactured home if loan has a settlement April 1, 2020 or after) See Bulletin 2019-25**
- Conforming only; no super conforming
- Owner occupied only
- Purchase or No Cash-Out Refi
- Fixed Rate
- Must verify two tradelines for 12 months for each borrower
  - One must be housing related

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

# Credit and Liabilities

## Fannie Mae

- **Federal Income Tax Installment Agreements**
- Allowed to include the payment due under a federal income tax installment agreement in the DTI, instead of payment in full
  - Lenders must obtain a copy of the approved IRS agreement
  - Evidence the borrower is current on payments must be documented in the loan file and at least one payment must have been made
  - There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.

## Freddie Mac

- **Federal Income Tax Installment Agreements**
- **No policy to allow for payments**

# Significant Derogatory Credit

## Fannie Mae

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

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

## Freddie Mac

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

### (b) Evaluating Borrower's credit reputation

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



# Assets and Reserves

## Fannie Mae

### – Sale of Personal Assets

- Document borrower's ownership of assets that are titled
- Value of the asset, as determined by an independent reputable source required if the proceeds represent more than 50% of the total monthly income used in qualifying.. Lenders must use the lesser of the estimated value or actual sales price for the funds for closing
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser
- The borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, copies of the purchaser's canceled checks or an equivalent payment source.

## Freddie Mac

### – Sale of Personal Assets

- A signed bill of sale documenting the asset and transfer of ownership
- Evidence of receipt of the proceeds

# Assets and Reserves

## Fannie Mae

- **Use of business assets** for closing
  - NO specific policy on review of large deposits on business statements
  - Deposits must make sense for the business and each loan looked at case by case
- **Gifts** can be transferred prior to or at closing

## Freddie Mac

- **Use of business assets** for closing
  - Policy allows to document **two months** business account statements
  - **Are large deposits typical? If so, no further documentation is required**
- **Gifts** must be transferred directly from the donors account to the borrower's account or settlement agent
- Funds transferred using a third-party money transfer application or service are acceptable only when the documentation includes evidence the funds were transferred using the application or service directly from the donor's bank account to the borrower's bank account or to the settlement or closing agent.

# Assets and Reserves

## Fannie Mae

- **Gifts from wedding**, allowed to address large deposits; Weddings are NOT an acceptable gift donor

- No policy on specific increases on the VOD.

## Freddie Mac

- **Gifts from wedding**, allowed but funds must be deposited *within 90 days of the marriage license or certificate*; Weddings are used to address large deposits; Weddings are NOT an acceptable gift donor

- For purchase transactions effective June 3, 2021, if using a VOD Sellers must include documentation when the account has a current balance that exceeds the average balance by more than 50% of the sum of
  - The total monthly qualifying income for the mortgage
  - The amount derived from the asset calculation for establishing the DTI ratio in accordance with the requirements of the Guide Section 5307.1, if applicable

# Assets and Reserves

## Fannie Mae

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

## Freddie Mac

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

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

# Self-Employment

## Fannie Mae SEB Documentation

- One or two years, based on DU findings message
- Business returns may be waived if business in existence for 5 years, income is increasing over the past two years on personal returns and using only personal funds
- SEB second job with a loss, not required to subtract
- SEB co-borrower income not required to subtract

## Freddie Mac SEB Documentation

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

### Self-Employment/ Variable Income

### DU Version 11.0

DU will no longer view self-employment as representing increased risk but will now evaluate the composition of borrower income.

DU will view borrowers whose total annual income is made up of a higher percentage of variable income (i.e., bonus, overtime, commission, and miscellaneous) as representing increased risk.

# Self-Employment

## Fannie Mae SEB Documentation

- One or two years, based on DU findings message
- Business returns may be waived if business in existence for 5 years, income stable on personal returns and using only personal funds
- SEB second job with a loss, not required to subtract
- SEB co-borrower income not required to subtract

## Freddie Mac SEB Documentation

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

### DU Version 11.0

#### Self-Employment/ Variable Income

DU will no longer view self-employment as representing increased risk but will now evaluate the composition of borrower income.

DU will view borrowers whose total annual income is made up of a higher percentage of variable income (i.e., bonus, overtime, commission, and miscellaneous) as representing increased risk.

# Rental Income

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

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

## Maximum eligible amount of net rental income

- The Borrower must currently own a Primary Residence to use rental income to qualify when purchasing a new rental property in the current calendar year. In such instances, net rental income can only offset the principal, interest, taxes and insurance (PITI) and when applicable, mortgage insurance premiums, leasehold payments, homeowners association dues (excluding unit utility charges) and payments on secondary financing (full monthly payment) of the new rental property.
- If the Borrower's current Primary Residence is being converted to a rental property, net rental income can only offset the full monthly payment of that Primary Residence.
- If the net rental income exceeds the full monthly payment of the new rental property or the converted Primary Residence, as applicable, the excess rental income cannot be added to the Borrower's gross monthly income to qualify unless the file documentation demonstrates the Borrower has a minimum of one-year investment property management experience.

Chapter 5306.1c(iii)

## Fannie Mae Rental Income

- Allows borrowers to have a primary housing expense (**rent or OWN**) before rental income can be used to offset a payment, applies for both purchase and **refinance transactions**

## Freddie Mac Rental Income

- Requires borrowers to OWN a primary home before rental income can be used to even offset a payment

# Second Homes (Must always be One Unit)

## Fannie Mae

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

## Freddie Mac **Bulletin 2019-07**

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



# Income Commencing After The Note Date

## Fannie Mae Option Two

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

### Employment Offers or Contracts

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

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

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

### Option 2 – Paystub Not Obtained Before Loan Delivery

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

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

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

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

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

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

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

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

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

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

Financial resources may include:

- financial reserves, and
- current income.

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

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

# Income Commencing After The Note Date

## Freddie Mac

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

### INCOME AND EMPLOYMENT DOCUMENTATION, continued

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

# Income Commencing After The Note Date

## Freddie Mac

- Option 2 allows for reduction of additional funds

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

# Income

## Fannie Mae

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

## Freddie Mac

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

# Income

## Fannie Mae (No change to policy)

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

## Freddie Mac

- When borrower's income is derived from fluctuating hourly employment earnings, **under no circumstances** may the employment history be less than 12 months
- If a decline or increase in income from prior year (s) and YTD earnings exceeds 10%, Sellers must conduct further analysis and additional documentation may be necessary to determine whether the income is currently stable

# Assets As Basis For Repayment

## Fannie Mae

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

## Freddie Mac

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



# Assets As Basis For Repayment

## Fannie Mae

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

## Freddie Mac (Effective July 3,2019)

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

# Multiple Financed Properties

## Fannie Mae

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

## Freddie Mac

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



# Interested Party Contributions

## Fannie Mae

- Calculates from the sales price

## Freddie Mac

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

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

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

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

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

# Appraisal Waiver Eligible & ACE Differences

## Fannie Mae

### – Appraisal Waiver Eligible

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

## Freddie Mac

### – Automated Collateral Evaluation (ACE)

- One Unit, including Condos
- Primary and second homes
- **No investment properties**
- Purchase primary and second homes up to 80% LTV/TLV
- No Cash-Out Refi for primary and second homes up to 90% LTV/TLTV
- Cash-out Refinance up to 70% LTV/TLTV for primary and 60% LTV/TLTV for second homes
- Must receive an Accept/Eligible if run through Loan Product Advisor

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

# Rural High-Needs Appraisal Waiver

## Fannie Mae

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

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

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

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### Browse by Role

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

<b>Fannie Mae Form 1084 Calculator (2019-2020)</b> Calculate and analyze cash flow to help you complete Fannie Mae Form 1084. <span>UPDATED</span>	<b>Fannie Mae Form 1084 Calculator XLS (2019-2020)</b> Calculate and analyze cash flow to help you complete Fannie Mae Form 1084. <span>UPDATED</span>	<b>Freddie Mac Form 91 Calculator (2019-2020)</b> Quick reference guide and income analysis for Freddie Mac Form 91. <span>UPDATED</span>
<b>Freddie Mac Form 92 Calculator (2019-2020)</b> Form 92 has Rental Income Calculations - Schedule E. <span>UPDATED</span>	<b>Schedule Analysis Method (SAM) Calculator (2019-2020)</b> Calculate qualifying income from the resource. <span>UPDATED</span>	<b>Rental Income Calculator (2019-2020)</b> Assists in calculating rental income from Form 1041 Schedule E. <span>UPDATED</span>
<b>Current Ratio - Liquidity Calculator (2019-2020)</b> Calculate working capital liquidity against current liabilities. <span>UPDATED</span>	<b>Quick Ratio - Liquidity Calculator (2019-2020)</b> Calculate an organization's liquidity against current liabilities. <span>UPDATED</span>	<b>Fannie Mae Rental Guide (Calculator 1037)</b> Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1037 (Principal Residence, or 1st Joint Property).
<b>Fannie Mae Rental Guide Calculator (1038)</b>	<b>Fannie Mae Rental Guide (Calculator 1039)</b> Calculate qualifying rental income for Fannie Mae Form 1039 (Business Rental Income from Investment Property).	<b>Fannie Mae Form 1088 Cheat Sheet</b> Use this cheat sheet guide for Fannie Mae's Comparative Analysis Form (Form 1088).
<b>Fannie Mae Comparative Analysis Form 1088</b> Calculate interest/losses in gross income, accounting and taxable income.	<b>Income Calculation Worksheet</b> Use this form to calculate income. <span>UPDATED</span>	<b>P&amp;L Calculator</b> Created as result of changes made by the SBA to adjust to the COVID-19 pandemic.
<b>Business Stability and Income Worksheet (2021)</b> Created as result of changes made by the SBA to adjust to the COVID-19 pandemic. <span>UPDATED</span>		

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## Self-Employed Borrower Tools

Valuable income calculation tools and reference guides for calculating self-employed borrower income.



Fannie Mae Form 1084 Calculator  
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Freddie Mac Form 91 Calculator  
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Freddie Mac Form 92 Calculator  
(2019-2020)



Schedule Analysis Method (SAM)  
Calculator (2019-2020)



Rental Income Calculator (2019-  
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What's the difference between financing concessions and sales concessions? Seller contribution vs seller concession? What about an interested party contributions? In today's #blog post, we're clearing up these definitions. Read it here >>  
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